



The charmer
who seduced
a nation

Page 1

Easter, the
time to see
Rome and buy

Page XI



A rare chance
to buy more
for now

Page XI



Springtime for Shanghai
The amazing renaissance
of China's marketplace

Page 10

FINANCIAL TIMES

Europe's Business Newspaper

Crédit Lyonnais plans to increase sale of assets

Troubled French bank Crédit Lyonnais, which is the subject of a FF14.5bn (\$7.5bn) government-backed rescue package, plans to sell more of its industrial holdings, chairman Jean Peyrelade said. Mr Peyrelade, who was drafted into Crédit Lyonnais by the Balladur government in November to orchestrate the rescue and prepare the bank for privatisation, had already announced plans to sell FF1.2bn of assets by the end of next year and now intends to make additional disposals worth up to FF1.5bn. Page 26

Parties moves ahead: Leading French banking group Paribas continued its recovery with a 64 percent increase in net profits to FF1.45bn (\$235m), helped by a strong performance in market trading activities. Page 13

Russians to own land: Individual Russians will become landowners for the first time under a plan for state and collective farms to sell land to their workers. Page 26

Israel accepts Palestinian police: Israel will allow a first contingent of 300 to 400 Palestinian police to be deployed in the Gaza Strip next week in the first move towards Palestinian self-rule in the occupied territories. Page 3

Troops move into Natal: South African troop reinforcements moved into Natal province to enforce a state of emergency while rival parties in the province seemed to have declared an informal Good Friday truce. Page 4; A prickly bear baited. Page 10

Malaysia's central bank chief quits: Jaffar Hussein, governor of Bank Negara, Malaysia's central bank, resigned after taking responsibility for losses of more than M\$2.7bn (\$2.1bn) through foreign currency transactions last year. That followed a loss of nearly M\$10bn in 1992. Page 4

Russian admits spying for Britain:

Vadim Sutsov (left), a Russian defence industry executive accused of spying for Britain, said on Russian television that he supplied the UK with information on Moscow's Middle East arms sales. Mr Sutsov, who said he was condemned "Democratically" by the Russian public, was arrested in Moscow's Lubyanka Prison. He was arrested in January and could face the death penalty if convicted of treason.

Kantor gives Gatt warning: US trade secretary Mickey Kantor said a continuing refusal by Gatt ministers to discuss workers' rights would undermine US support for a new world trade accord, due to be ratified in Marrakech this month. Page 3

Air France seeks backing from staff: Air France chairman Christian Blanc is to seek the support of the company's 40,000 staff in an attempt to push through a recovery plan. Page 2

North Korea rejects UN call: North Korea rejected a call from the United Nations Security Council to accept international nuclear inspections, saying the issue could only be resolved through direct negotiations with the US. Page 4

Renault: French state-owned vehicle group, suffered a sharp fall in profits last year to FF11.07bn (\$1.8bn) from FF15.68bn because of contraction in the European car market. Page 13

Metallgesellschaft: Shareholders approved the second phase of a rescue package for the beleaguered German metals group after a stormy annual meeting which focused mainly on alleged shortcomings of the supervisory board. Page 13

Deutsche Bank expands foreign business: Deutsche Bank's expanding foreign business and sharp growth in returns from trading on its own account were the main contributors to its 23 per cent increase in net earnings last year of DM2.2bn (\$1.3bn). Page 13; Lex, Page 26

Tunnel services delayed: The Channel tunnel will not be fully opened for passenger trains until at least September, four months after the official opening on May 6. Page 6

Redland posts £277m: Pre-tax profits of building material groups Redland jumped by 40 per cent last year to £277m (£407m). Page 12; Lex, Page 26

46% of workers anxious about jobs: Forty-six per cent of full-time and part-time workers in the UK are concerned about losing their jobs in the next 12 months, the latest MORI/BS survey for the Financial Times shows. Page 6

Round-the-world sailors set records: Sailor Peter Blake from New Zealand and Robin Knox-Johnston of the UK set a non-stop round-the-world record of 74 days and 22 hours when their 22ft catamaran *Senzu* New Zealand arrived at Ushant, France. The previous record was 79 days.

Robert Doisneau dies: Photographer Robert Doisneau, whose romantic black-and-white pictures such as "Le Baiser de l'Hôtel de Ville" immortalised post-war Paris, died aged 81.

Today's crossword: Today's prize crossword appears on Page 13 of the first section.

The Financial Times will not be published on Monday April 4.

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Non-farm employment rises 456,000 ■ Expansion may force interest rate increase

US economy set for robust growth

By Jurek Martin in Washington

The US economy looks set for a period of strong expansion after a range of economic statistics yesterday all pointed to a robust recovery.

But the prospects of further strong growth also increased the probability of a further increase in short-term interest rates.

The most eye-catching statistic was that non-farm employment in March jumped by 456,000, far in excess of market expectations and the largest single monthly increase since the Wall Street collapse of October 1987.

The New York equity markets

were closed yesterday for Good Friday, but prices of long-dated bonds sank. The benchmark 30-year Treasury bond fell more than 1/4 points, sending the yield up to 7.26 per cent, although trading was light. One trader described the market reaction as "swift, violent and unforgiving".

On Thursday, the Dow Jones Industrial Average rallied

towards the close to finish up 9.21 points at 3,635.96, having fallen 67 points earlier in the day. But most broader market measurements were down, and the Dow ended the shortened week off 138.77 points.

The market slide, which has

cut share prices by about 9 per cent in two months, was enough to persuade President Bill Clinton, on holiday in California, to state that "corrections" in the market were normal and to warn against "stiltiness". Economic fundamentals were sufficiently sound that comparisons with 1987 were invalid, he said.

Other economic indicators published yesterday, both for February, showed personal income up 1.3 per cent, reversing the decline of 0.3 per cent in January, and personal spending up 1 per cent, after an increase of only 0.1 per cent the previous month.

Final revised gross domestic

product figures for the last quarter of 1993, released on Thursday, showed real annual growth at 7 per cent, down from the earlier estimate of 7.5 per cent, but still the strongest three months since the first quarter of 1984.

Ms Laura Tyson, head of the president's council of economic

advisers, said there was no reason to change two of the administration's annual forecasts - of 3 per cent real growth and 2m new jobs. She said there was "an upside risk on both numbers", though higher interest rates might have a damping effect.

Reaction to the data by eco-

nomic analysts was uniform. Merrill Lynch said first-quarter real growth "may be closer to 4 per cent than 3.5 per cent", its previous prediction. S G Warburg said it "may equal or exceed 4 per cent." All noted no evidence rising inflationary pressures.

Ms Katherine Abraham, com-

misioner of the Bureau of Labor Statistics, told Congress that more than half the growth in employment in March reflected a rebound from the weather-ravaged previous two months, exacerbatated by the Los Angeles earth-

quake in January.

However, the jobless rate

remained unchanged at 6.5 per

cent. The bureau explained that whereas a reduction of 100,000 in the official unemployment rolls could produce a 0.1 percentage point drop in the unemployment rate, it could take as many as 700,000 new jobs to produce the same result, because most openings went to those not registered in the labour force.

In fact, in March 349,000 of the 456,000 new jobs were part time. Manufacturing employment only rose by 12,000.

Editorial Comment, Page 10
Currencies, Page 15
Lex, Page 26
Weekend, Page 11



Berlusconi intensifies efforts to form coalition government

By Robert Graham in Rome

Italian media magnate Mr Silvio Berlusconi intensified his efforts yesterday to persuade the popular Northern League to form part of the country's next government.

The reservations of the League and its leader, Mr Umberto Bossi, are the main hurdle facing Mr Berlusconi in putting together a government after this week's landslide victory by the right-wing Freedom Alliance.

Mr Berlusconi has already received broad backing from the neo-fascist MSI/National Alliance. The MSI, together with Mr Berlusconi's Forza Italia movement and the League, fought the elections under the banner of the Freedom Alliance, even though their electoral platforms were separate and often divergent.

Yesterday, Mr Berlusconi held

his second meeting in three days with League representatives. It was convened against the background of statements by Mr Bossi damping hopes of an agreement. Mr Bossi himself declined to attend and delegated his closest aide, Mr Roberto Maroni, to conduct the negotiations.

Afterwards, Mr Berlusconi was invited to draw on the talks and said he was operating to no precise timetable. However, he has let it be known that he is anxious to put together a government based round his four-month-old Forza Italia movement, the League and the MSI.

The prospect of forming a govern-

ment with a clear parliamentary majority - despite serious divisions within the Freedom Alliance - has prompted heavy buying of stocks on the Milan bourse this week and a strengthen-

ing of the lira against the D-mark.

The lira was yesterday being

traded at L960 against the D-mark compared with over L990 in the run-up to the elections. The lira has long been considered under-valued, and the market has been waiting to see the outcome of the elections. The currency has also firmed because of the recession has bottomed and a recovery, albeit timid, is on the way.

The financial markets added to gains made on Thursday as trad-

ers predicted that a government could soon be formed. They appeared shrug off events yesterday.

"It is all part of the negotiating game. Of course, they are going to sell their support for the highest price they can," said one Milan broker. Shares on the Milan stock exchange added to recent gains, with a 1.6 per cent rise yesterday, taking the BCI index to a close of 735.11.

Ministers may drop the requirement for Britain's leading football clubs to have all-seater stadiums by August in a move that could mean a reprieve for terrace culture.

They are considering whether to extend this summer's deadline

- which in England includes Premiership and First Division clubs - on a case-by-case basis, and whether to combine this with a change in the law to remove the all-seater requirement.

This would be as part of a reform of the three acts governing sports grounds, which ministers would like to see rationalised into one as part of the government's wider deregulation initiative.

If the proposed reform makes it on to the 1994-95 legislative timetable, as the Department of National Heritage is understood to have requested, this could mean a permanent reprieve for some terraces - with the tradition of songs and chants and cheaper admission prices.

Although several clubs are struggling to meet the August deadline, such a reversal of policy would probably be viewed dimly by those that have already spent heavily to upgrade their

grounds as required.

The apparent softening of the government's stance stems from two main factors:

- a growing feeling that the Taylor report into the 1989 Hillsborough disaster, which led to the all-seater requirement, took an understandably but unnecessarily rigid line. Some 95 fans were crushed to death on the terraces at the Sheffield football ground.

- Improvements in ground safety technology. Mr Ian Spreat, national heritage minister, is understood to have been impressed by a system that monitors pressure around a stadium.

Mr Tom Pendry, a Labour national heritage spokesman, recently referred to this system, saying: "I firmly believe that, in the light of new developments, supporters should be given the opportunity to stand in new, safer areas."

Barnsley will be applying for an extension to the August deadline, according to Mr Michael Spinks, general manager.

The club recently received planning consent for a 4,500-seat stand that would lift its seating capacity to more than 14,000. But this will not be open until 1995 at the earliest.

Rebates for sports clubs, Page 9

Rail companies may have to honour most tickets of rivals

By Charles Batchelor,
Transport Correspondent

A potentially significant barrier to the smooth operation of ticket sales on Britain's newly-privatised railways could be lifted under proposals being considered by the railway franchising director, Mr Roger Salmon.

One option being studied

would oblige the private train-oper-

ating companies which take over British Rail franchises to accept most of the tickets issued by other train companies.

Under the original rules governing rail privatisation, the new train operators would have only had to accept other full-fare and season tickets. These would account for just 20 per cent of all tickets issued.

Many travellers could have

been forced to buy more than one ticket if their journeys involved services operated by more than one train company.

Under the original rules governing rail privatisation, the new train operators would have only had to accept other full-fare and season tickets. These would account for just 20 per cent of all tickets issued.

He wants train operators to accept most of each other's tickets. However, they could opt out if they proved that by not accepting the tickets of a rival, competition would be increased and the traveller would get a better deal.

Mr Salmon is understood to

have been considering investment in

emerging markets for some time.

He has been looking at opportunities in countries such as Brazil, Mexico, Argentina, Chile, Venezuela, Turkey, South Africa, India, Indonesia, Thailand, Malaysia, Singapore, Australia, New Zealand, South Africa, Kenya, Tanzania, Uganda, Ethiopia, and others.

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NEWS: INTERNATIONAL

Bossi sets out his store for Berlusconi

By Robert Graham
in Rome

Mr Umberto Bossi, the fiery leader of the populist Northern League, has begun a high stakes game of bluff and threat to wring out the maximum amount of concessions for joining the next Italian government.

This means that over the next few days there will be some confusing and belligerent noises coming from the Bossi camp as media magnate Silvio Berlusconi tries to hammer out a consensus on a government programme.

However, Mr Bossi appears to have accepted the principle that the League be part of the government in the wake of the overwhelming election victory by the right-wing Freedom Alliance.

He also appears to have dropped his resistance – again in principle – to the presence in government of members of the neo-fascist MSI/National Alliance of Mr Gianfranco Fini, the third main component of the Freedom Alliance.

Thus the discussions now taking place are over the nature of the government programme and the role the

League should play in government.

Yesterday Mr Berlusconi met for the second time in three days with League representatives. Whereas Mr Bossi was present at the first encounter, yesterday he deliberately delegated his most trusted aide, Mr Roberto Marone, to meet Mr Berlusconi, and so distanced himself from the negotiations.

"We will put together a government and it will be a strong one," Mr Marone said afterwards.

But neither he nor a statement from Mr Berlusconi's Forza Italia movement gave any idea whether their differences were being narrowed.

Mr Berlusconi himself yesterday refused to be tied to a timetable for forming the government. "Parliament reassembles on April 15. But this is not necessarily the date for the formation of the government," he said.

In the past Mr Bossi and Mr Marone have proved a highly effective duo. Mr Bossi makes the tough uncompromising public statements; in private



Posters are up in Italy thanking voters for backing media magnate Silvio Berlusconi in elections

Mr Marone softens them and acts as the go-between. They are likely to repeat this tactic now with Mr Bossi threatening not to join the government and

Mr Marone then making light of such threats.

It is also a way of Mr Bossi trying to impose his demand that Mr Marone be the next

prime minister, instead of Mr Berlusconi. Mr Bossi argues that with 118 seats in the Chamber of Deputies compared with the MSI's 105 and Forza

Italia's 101, the premier should come from the largest represented party.

Having bad-mouthed his allies and associates in the Freedom Alliance throughout the election, it was too much to expect the volume. League leader to soften his language immediately. He also has to placate unease among his rank and file over doing a deal with the MSI. Nevertheless, Mr Bossi's tone and emphasis has changed.

Instead of attacking the MSI as being "reactionary fascists," he is insisting the next government be built round a compromise of a new federalist approach to Italy's constitution.

This has long been a League platform and a major point of difference with the MSI which believes in the opposite – a strong centralised state.

Mr Berlusconi stands somewhere near the middle in this argument. A northerner, he understands the frustrations of the League at seeing the hard-working north underwriting the inefficiency and waste of

Rome and the south. His free-market instincts also attract him to the idea of greater administrative and fiscal devolution in Italy, the most centralised state in the EU.

One way round the impasse between the federalist League and the centralist MSI is an agreement to introduce direct elections for the president of the republic, giving the presidency, almost French-style powers.

Only when these issues are resolved will the parties move on to finding common ground on measures to deal with the economy, another key area of potential disagreement. The economic programmes of the three parties, hurriedly put together prior to the elections, have few points in common.

Although the Italian media have been full of lists of potential ministers during the past few days, Mr Berlusconi yesterday insisted no appointments had been decided. Mr Berlusconi is determined to cut the number of ministers by up to one third and is considering carrying out the much-studied amalgamation of the Treasury with the budget and finance ministries.

German interest rate cuts urged

By Christopher Parkes
in Frankfurt

The German economy is so weak that further interest rate cuts are essential, and the government must also act to encourage job creation and prevent further contraction in domestic demand, a top Deutsche Bank executive has warned.

The Bundesbank, the central bank, need have no fear of prompting a rise in the US dollar and thus fuelling imported inflation, Mr Ulrich Cartellieri told the bank's annual press conference.

No need it worry about disturbing European exchange rates to the disadvantage of German exporters.

Mr Cartellieri, the main board director responsible for foreign exchange and the economics department at Germany's biggest private sector bank, said the weakening dollar was virtually an "invitation" to rate cuts.

Every German rate reduction would be fully followed by European neighbours, he added.

Other conditions were also favourable. Inflation was falling, and the recent annual pay round had resulted in the lowest wage increases since introduction of the D-Mark in 1948.

Meanwhile, the economy remained weak. Unemployment would increase by around 500,000 to 4.5m this year. Exports might increase 5 per cent, but that would not compensate for last year's 10 per cent drop.

No one who saw Mr Balladur look so demoralised this week would rule out such an announcement. But next week he is visiting China.

All his forays, unusual for a French prime minister, into foreign and defence policy indicate his persistent interest in the ultimate prize in French politics.

No one knows how the Balladur-Chirac rivalry will play out, in the probable absence of any clean-cut mechanism like a US-style primary election taking place in France. One theory has it that only by climbing back in the opinion polls to where he was last year – which now seems improbable – can Mr Balladur displace Mr Chirac's natural hold over the RPR.

But Mr Balladur has one ace – the centre-right UDF party among which he is more popular than among his own Gaullist ranks. If the UDF were all to tell the RPR that the French right must field a single candidate, so as to avoid past divisions, and that that candidate must be Mr Balladur, this prime minister might still recover to go on to higher things next year.

Stating his case against a background of rising optimism in industry, he said false conclusions should not be drawn from the apparent improvement in company profits.

This was due to reduced one-off costs for restructuring rather than a real upswing, he claimed.

No-one should count on increased investment. "Even stagnation at last year's extremely low level could be counted as a success in 1994."

Expectations of 1 per cent economic growth in western Germany this year were based entirely on improved exports and special factors prompting a boom in house building.

Government forecasts of 1.5 per cent pan-German growth were based on "rather optimistic" assumptions, he said.

Results, Page 13

Air France to canvass support from workers

By John Riddick in Paris

Mr Christian Blanc, chairman of the airline, is to seek a vote of support from the company's 40,000 staff in an attempt to push through a recovery plan which he says is vital for the airline's survival.

Mr Blanc's decision to launch a referendum on his recovery package follows his failure to win the backing of trade unions for the plan. By Thursday's deadline, only six of the airline's 14 unions had signed the restructuring programme, which aims to increase productivity by 30 per cent over the next three years through 5,000 job cuts, a wage freeze and promotions, and other efficiency measures.

Mr Blanc, who has threatened to resign if the plan is rejected, called for a "clear and massive" response to help save the state-owned carrier, which suffered an estimated loss of FFr7.5bn (£330m) last year and has debts of almost FFr40bn. A capital injection of FFr20bn from the state is conditional on staff support for the plan.

Results of the referendum will be announced on April 11. Mr Blanc's chances of success in the poll have been boosted by the support of

Balladur's rocky road to the Elysée

The PM's presidential hopes have been undermined, writes David Buchan

Prime Minister Edouard Balladur's latest climb-down, over youth wage cuts, has triggered a period of political instability that will probably last until next May's presidential election.

Supporters of Mr Jacques Chirac, Mr Balladur's rival for the Elysée, now smell blood. The triumphant students and the revived left-wing opposition have been crowding their victory over the prime minister, but more dangerous have been the calls for ministerial resignations coming from within the RPR Gaullist party to which Mr Balladur belongs, but which Mr Chirac heads.

Most of the fire is directed at Mr Michel Giraud, the labour minister, who only a few days ago was claiming the government would stand as solidly in defence of its youth wage law as the French army did against the Germans at Verdun. But as the "Chiraquines" know well, Mr Giraud's successive tinkerings on employment policy are also those of his prime minister, and therefore the latter cannot decently sacrifice him without jeopardising further his own credibility.

In terms of social unrest, the worst may be past for Mr Balladur.

Calm may now return to the streets, though this is not certain if Air France staff take a page out of the students' exercise book and reject the gov-

ernment-supported restructuring for the ailing airline. As far as the economy is concerned, the worst is probably past too.

Economic activity is continuing its very slow, but progressive, recovery from last year's trough. But the sight of a dejected Mr Balladur marking his first anniversary at the Matignon with a humiliating retreat has reinforced the feeling of many in the RPR party machine that they should stick with their founder-president

on public sector redundancies.

But, on educational and labour reform, he has hit nothing but trouble, even though some reform is long overdue; parts of the employment law, which was passed last autumn but which has taken such a battering since, are designed to overhaul labour legislation dating back to the Popular Front in 1936-7.

The upshot has been to reinforce Mr Balladur's natural caution with the inevitable

order to fit France for the future disciplines of European monetary union. This task is rendered more difficult by his decision, with an eye to running in 1995 on a strong defence platform, to raise slightly military equipment spending.

Where is his political "hush"

money to come from? Privatisation is the obvious, but not inexhaustible, source now that Mr Balladur has postponed the sale of Renault:

His forays indicate persistent interest in the ultimate prize in French politics

Mr Chirac, for 1995.

So, whatever happened to Mr Balladur, the self-styled reformer riding so high in the polls? In a document designed to vaunt the achievements of his first year, the prime minister identifies his three problems.

• "Public opinion which both desires and recoils from reform." Mr Balladur had little problem with some reforms, notably giving the Bank of France independence in setting monetary policy and in launching his privatisation programme, though he has made the task of preparing more state companies for sale harder this week by extending his freeze

result that the pace of reform will be slowed in endless consultations.

• "The economic situation, even if it improves, deprives us of the necessary budgetary and social room for manoeuvre." Latterly, Mr Balladur has seemed to be paying scant attention to his budgetary constraint as he has successively bought off French farmers, state school teachers, fishermen, and now – in a manner of speaking – students. His FFr1,000-FFr2,000 (£17-225) a month subsidy to employers for young people their first job may cost FFr6bn this year.

At the same time Mr Balladur has pledged to rein in steadily public spending in

Mr Balladur is known to be frustrated at the Bank of France's cautious policy on interest rates, and must therefore have been pleased when the central bank on Thursday sliced another 0.1 point off its intervention rate to bring it down to 5.9 per cent. Though he would never say publicly, he is almost certainly in agreement with the Organisation for Economic Co-operation and Development's recent call for French rates to come down further and faster.

• "The presidential election campaign is weighing too early on people's minds." Mr Balladur could, of course, deal with this problem simply by announcing that he is not a

candidate for the Elysée, leaving the pundits only the minor pleasure of speculating about which Socialist candidate (probably Mr Michel Rocard) gets to be beaten by Mr Chirac.

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Results, Page 13

Belgian push to sweeten chocolate sales

Gillian Tett on how hopes are being pinned on exports

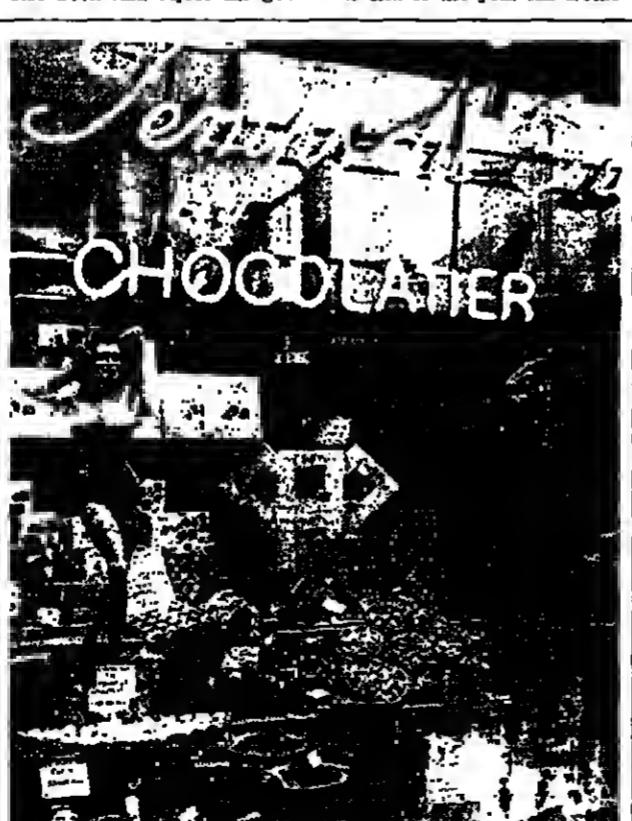
One company is so secretive that it refuses to reveal how many Easter eggs it makes. Another recently sent out spies to test the quality of a competitor's truffles. A third is quietly plotting to usurp a rival's royal sceptre.

As Europe prepares to embark on its annual Easter egg binge, Belgium's luxury chocolate sector is bubbling with some serious business battles.

Faced with a domestic market that is almost saturated after a decade in which total domestic chocolate production has more than doubled to some 300,000 tonnes, its luxury chocolate makers are now gearing up for an export drive.

It is a battle, however, that is pitting soul searching, particularly among the small- and highly secretive band of traditional chocolate makers, who have been the source of Belgium's luxury chocolate fame.

Although most recognise that their best hope of expansion will be through export, some fear this could eventually cost them their independence.



Hunt for growth: luxury chocolate makers are looking abroad

reach a turnover of FFr1.6bn, after a period of stagnation in the 1980s. It has recently opened 120 foreign outlets and conducts 30 per cent of its business outside Belgium.

Meanwhile, the secretive Leonidas group, which is controlled by a Greek family, is estimated to have a turnover of about \$60m (£33.9m), controlling half the luxury "praline" chocolate market in Belgium with a network of some 1,600 independent overseas distributors.

But most of the tiny, traditional chocolate makers, who continue to produce the most exclusive Belgian chocolates, are still struggling to find their place in the world.

The minister calculated that Hungary's proposals implied a debt-for-equity deal worth up to \$300m but cautioned: "We have to harmonise Hungarian demand and Russian supply."

Budapest will be aware of the limited success so far of debt-for-equity swaps with Russia. Skoda Pilsen, the Czech engineering company, last year pressed for shareholdings in Russian rolling stock companies in exchange for trade debt, without success.

Nevertheless Hungary said it had little choice. A Foreign Ministry spokesman said: "If there is this debt, we have to use it."

The Russian deal with Hungary is the mirror image of the situation in the former Soviet Union, where Russia is the creditor, attempting to retrieve debts from other former Soviet republics.

Russia last month pushed for ownership in Ukrainian underground gas storage tanks and gas transit pipelines as part of a debt settlement with Kiev. In the former Soviet Union, Russia demands for equity in the energy industry are also seen as an effort to regain economic influence.

Claims carried over from the previous trading system have proved a constant factor, and often irritant, in relations between Moscow and the former Soviet satellite.

Russia paid off some of its debt to Slovakia last year by delivering five MiG-29 aircraft. Moscow and the Czech Republic have not come to terms.

Mig-29 fighter aircraft, spare parts and ammunition worth \$200m from Russia.

When east European countries closed the books on their trade under the old Comecon system in 1992, Russia carried over a debt of \$1.7bn with Hungary. Nearly half of that outstanding balance was cleared last year and yesterday's agreement settled the remainder, at least in principle.

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INTERNATIONAL NEWS DIGEST

Greek lobby slows US plans on Macedonia

The influential Greek lobby in the US appears to have had some success in slowing down the Clinton administration's announced plan to proceed to full diplomatic relations with the former Yugoslav republic of Macedonia.

While the State Department has continued to insist this week that an embassy would eventually be established in Skopje following the decision to recognise Macedonia despite Greek objections, it declined substantive comment on an apparently well-sourced column by Mr Jim Hoagland in the Washington Post. This pointed to a critical White House meeting on March 9, which brought together President Bill Clinton, vice president Al Gore, and national security adviser Tony Lake with a Greek-American delegation, led by Senator Paul Sarbanes of Maryland.

Mr Hoagland quoted a satisfied member of the delegation as asserting that Mr Clinton said he had already decided not to go ahead and open an embassy until progress was made in the Greece-Macedonia dispute. The president's thinking was reported to be in accord with that of the Greek government.

The State Department, which has been critical of Greece's behaviour towards Macedonia, was not represented at the meeting. But Mr George Stephanopoulos, the senior adviser who is the son of a Greek Orthodox priest, was. Mr Hoagland also saw the influential hand of Ms Nancy Soderberg, a member of Mr Lake's staff, in the president's reported decision.

Mr Victor Contas, the diplomat reportedly in line to be ambassador to Macedonia, may be despatched, but only as head of a diplomatic liaison office. *Jack Martin, Washington*

UN forces may go to Gorazde

The United Nations is considering the despatch of 800 Ukrainian peacekeepers to Gorazde, the besieged Muslim enclave in eastern Bosnia, a UN official said yesterday.

The move comes as Serb attacks on Gorazde, a UN-designated safe area, have left 20 people dead and 132 wounded since Monday. By contrast, Serbian media reported that an all-out Muslim offensive was under way as the two sides fought pitched battles in the fiercest clashes since the war began in April 1992. UN officials said some of the Serb attacks may have been in response to Bosnian government "infantry probes".

The UN was also considering the deployment of reinforcements for the French peacekeeping contingent in Bihać, in Bosnia's north-western Moslem area, where Serb and Bosnian forces yesterday signed a ceasefire, said a senior UN official. The plans for bolstering the peacekeeping forces in Bosnia follows approval by the UN Security Council on Thursday of an extra 3,700 troops and advisers. *Laura Stiber, Belgrade*

Exports to Latin America rise

For the first time in 12 years Germany recorded a trade surplus of DM1.8bn (£700m) with Latin America during the first nine months of 1993; helped by a 56 per cent increase in exports to Brazil and a 17 per cent drop in imports. Prospects for the continent improved dramatically with a net capital inflow of about \$50bn last year, of which \$17.5bn comprised direct foreign investments, according to figures from the Deutsche-Südamerikanische Bank, a part of Dresdner Bank.

German exports to Latin America rose by just over 6 per cent to DM11.2bn while its exports worldwide fell almost 13 per cent. Weak prices for coffee, copper and other commodities caused the sharp fall in imports. Plant and machinery made up about a third of exports to Brazil where a surge of almost 5 per cent in GDP wiped out a traditional German trade deficit with Latin America. Exports to Colombia and Paraguay also rose, while shipments to Mexico dropped 6 per cent. *Michael Lindenmann, Frankfurt*

Doyle to quit Irish bank post

Mr Maurice Doyle, the governor of Ireland's central bank, is to step down at the end of this month having completed a seven-year term of office. The Department of Finance said yesterday that Mr Doyle was not seeking reappointment for a second term, but gave no indication of who might replace him. Mr Doyle, 62, has built a reputation of being a strong and forthright governor, quick to assert the bank's independence.

Mr Doyle had also spent 30 years working in the Department of Finance, and was its top civil servant for six years. He has been one of the key figures behind Ireland's "strong punt" policy, pursued by successive governments since the late 1980s, which together with sharp cutbacks in government borrowing over the same period, has helped bring Ireland's inflation rate (1.6 per cent in 1993) down to one of the lowest in the EU. The next governor will oversee the separation of the London and Dublin stock exchanges, tentatively scheduled for later this year. *Tim Coone, Dublin*

China detains dissident again

China yesterday detained its most prominent dissident for the second time in a month, thus risking further inflaming international criticism of its human rights behaviour. Police seized Wei Jingsheng, the pro-democracy activist, as he was travelling by car from the port city of Tianjin to Beijing. He was "exiled" to Tianjin last month during the visit to China of Mr Warren Christopher, the US secretary of state.

Mr Wei, 44, was held for 30 hours last month on the eve of Mr Christopher's arrival in Beijing before being sent to Tianjin. China's crackdown on political dissent in the past month, including the arrests of more than a dozen activists, has been condemned internationally. The arrests coincided with indications of growing official nervousness over dissident activity and signs of industrial unrest. *Tony Walker, Beijing*

US-Singapore caning row

Singapore yesterday expressed regret that the US embassy in the country had again questioned the judgment of local courts in the case of an American teenager sentenced to be flogged for vandalism. The acting US ambassador described the penalty as excessive "for a youthful non-violent offender who pleaded guilty" after an appeal against the sentence failed on Thursday.

In dismissing the appeal Chief Justice Yong Pung How said that Michael P. Fay, 18, committed acts of vandalism "relentlessly and wilfully". He pleaded guilty on March 3 to two charges of vandalism, which involved spraying paint and tossing eggs at private cars last September. Three strokes of a bamboo cane across the bare buttocks are mandatory under Singapore law for each vandalism charge. *AP, Singapore*

Coal miners threaten strike

Russian coal miners threatened yesterday to stage an all-out strike from April 13 that could deal a severe blow to the fragile economy and shake the government. About 500 miners' representatives from across the country adopted a resolution calling for an indefinite strike unless the government honoured a promise to pay money owed for salaries. Deputy Prime Minister Alexander Shokhin had promised to grant the coal mining industry 1.2 trillion roubles (248m) this month to cover salaries. *Reuters, Moscow*

Japan reactor near critical level

A nuclear chain reaction will reach a critical, self-sustaining level next Tuesday in Japan's controversial "fast-breeder" nuclear reactor, officials said yesterday. The fast-breeder reactor uses plutonium as a base substance to generate electric power. Other industrialised nations have dropped plans for plutonium breeders because of the hazards associated with plutonium, leaving Japan as the only country actively pursuing the technology as an energy source. The plant, is located in Tsuruga, Fukui Prefecture, 335 km west of Tokyo. *AP, Tokyo*

Hosokawa comes under mounting fire

By Emiko Terazono in Tokyo

A group of parliamentarians travelled in pouring rain yesterday to the home town of Mr Morihiro Hosokawa, the Japanese prime minister, to inspect his ancient mansion in Kumanoto, southern Japan.

The opposition Liberal Democratic Party members were trying to dislodge Mr Hosokawa's claim that he used a Y100m (2683.000) loan from the Sagawa Kyubin trucking company to mend his gate and walls.

They allege the prime minis-

ter instead used the money to secure his candidacy for gubernatorial elections in 1983.

Revelations that Sagawa bribed politicians for favours helped to bring down the long-ruling LDP last year, enabling Mr Hosokawa to take power.

In the latest offensive, LDP

and communist parliamentarians are blocking Mr Hosokawa's Y17.000bn (2477.4bn) budget for the business year which started yesterday.

They are refusing to allow

deliberations on the budget until the prime minister brings in his former secretary to tes-

tify before parliament and proves that he repaid the loan to Sagawa.

The situation is beginning to resemble that of 1989, when Mr Noboru Takeshita was forced to resign as prime minister over links with the Recruit stocks-for-favours scandal in exchange for passage of the annual budget bill.

The wrangling is getting more public attention than Mr Hosokawa's handling of trade tensions with the US or the faltering domestic economy.

Economic implications of the

budget boycott are severe. A

provisional budget for the first 50 days passed through the upper house last night, but lack of a full budget jeopardises planned tax cuts that are the centrepiece of Mr Hosokawa's package aimed at reviving the economy.

Some members of Mr Hosokawa's coalition are even suggesting that the prime minister give in to the opposition demands, since they believe LDP scrutiny can only damage his credibility.

The purchase of 300 Nippon Telegraph and Telephone shares by the prime minister's

father-in-law in 1986 is also being questioned by the LDP.

Mr Hosokawa supplied the collateral for loans to buy the shares, but he has denied any involvement in the purchase.

While stock purchases by

politicians are not illegal, Mr Hosokawa's continued denials, in spite of claims by a stock consultant that he had given in to the opposition demands, has made the deal for the prime minister an ideal target for the opposition parties.

Some political analysts believe that, as much as they

would like to, the LDP does not

have the clout to force Mr Hosokawa to resign. "They can only drag him through the mud," says Mr Jeff Young, political analyst at brokers Salomon Brothers in Tokyo.

But Mr Hosokawa's image as a clean politician dedicated to reform has been tarnished and his popular support is declining. Until now, his high ratings in the opinion polls have provided bargaining power and helped bolster his political position.

Already, the prime minister's opponents are taking advantage of that dwindling support.

Japanese score a victory for consumers' rights

But there are still doubts about the impact of a planned new product liability law, writes Michiyo Nakamoto

The legal victory this week of a small construction company over Matsushita, the electronics giant, in an unprecedented product liability case has raised hopes in Japan that consumers have finally won their day. The Osaka district court ruled Matsushita was responsible for a fire that started in a Matsushita-made television set at the construction company's office.

But in Japan, where corporate interests generally prevail over the rights of individuals, any celebration of consumer victory is tempered with caution. "We welcome the ruling but are worried it could send the wrong message to consumers that the law will help them more than will actually be the case," says Ms Yoko Tomiyama, head of the Consumers' Union.

The same goes for a new product liability bill being drawn up by the government and expected to be enacted in 1995. The legislation, which follows nearly two decades of debate, is to give consumer legal protection. But it has been undermined by pressure by industry and the previous government.

The draft bill to be presented to the Diet this month has been criticised as weak and full of loopholes. Critics say it could be worse than present legislation. Currently, consumers have to negotiate directly with a manufacturer or launch negligence actions.

But Mr Hidetoshi Sugimura, a lawyer specialising in product liability cases,

says that in Japan, courts give people little room for doubt in proving they were hurt by a product defect. "The Matsushita case was an exception among exceptions."

Under Japanese law it has been difficult for consumers to win product liability cases because they have to prove not only that the defective product caused damage, but also that the manufacturer produced the defective product intentionally or accidentally.

There have been only 17 product liability cases between 1949 and 1991, according to the Ministry of International Trade and Industry.

The draft bill is based on a report of the prime minister's Social Policy Council, which largely reflects the views of ministries, industry and academics. It has drawn criticism from consumer groups and lawyers.

Critics say that, as it stands, it favours industry over consumers. It would let manufacturers plead innocence on the grounds that danger could not be predicted in the light of technical standards at the time. This provision was included to answer concerns that strict liability rules would hamper manufacturers' drive to develop new products.

At the same time, while access to crucial corporate information would still be severely restricted, the draft bill requires the party seeking damages to pinpoint where exactly the defect is located. The bill further exempts a number of products, such

as buildings and certain vaccines from liability. Critics also charge that the rule holding manufacturers liable for only 10 years after a product is put on the market, restricts consumers' ability to win cases, particularly where drugs are concerned.

Mr Sugimura believes that the worst of the proposals is the requirement that the term "defect" be strictly defined. This, he argues, helps manufacturers to prepare for the possibility of liability. "If that is included, it would be worse than not having a PL law at all," he warns.

Critics also say the proposals fall short of legislation protecting consumers in the US. "At first we were worried that the Japanese law would be diluted as that in parts of the European Union, but now we are worried that it will be worse," says Ms Tomiyama of the Consumers' Union.

If the proposed bill goes through as it stands, it will be firm testimony to the strength of industry's voice in the government.

But Mr Sugimura is still hopeful. The governing coalition has set up a product liability project team which has mainly lawyers as its members. This group is trying to get the Social Policy Council's proposals reviewed, particularly on the definition of defects, and will have a significant influence over the final form of the bill. "That is something different from the previous government and offers hope for the bill," he says.

Israel in accord on Palestinian police for Gaza

By David Horovitz in Jerusalem and Mark Nicholson in Cairo

Israel has agreed to allow a first contingent of 300 to 400 Palestinian policemen to be deployed in the Gaza Strip early next week in the first vestige of Palestinian self-rule in the occupied territories.

Israel and PLO officials will resume intensive negotiations in Cairo tomorrow on the final aspects of the much-delayed "Gaza-and-Jericho-first" Palestinian self-rule deal, which follows over the same period, has helped bring Israel's inflation rate (1.6 per cent in 1993) down to one of the lowest in the EU. The next governor will oversee the separation of the London and Dublin stock exchanges, tentatively scheduled for later this year. *Tim Coone, Dublin*

The Israeli know how important this date is and will insist on it very hard," said Mr Marwan Karash, an adviser to Mr Yasser Arafat, the PLO chairman.

PLO officials in Cairo said they believed the two sides were close to announcing the date for an Israeli withdrawal. But they would not confirm remarks by a PLO official in Jordan that Israel had already agreed to begin withdrawal on April 12 and complete the pull-out by April 30.

Mr Nabil Shaath, the chief PLO negotiator, said after the Cairo deal was reached that it marked "a renewed commitment to finish by the target date."

The force will comprise 300 Norwegians, 35 Danes and 35 Italians - 50 of them lightly armed for their "personal protection". The mandate is for three months but can be extended if both sides agree.

PLO and Israeli officials have emphasised during last week's talks that the Hebron massacre and events since have heightened the need to speed implementation of the Gaza-Jericho mandate.

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examining the link between workers' rights and the world trading system when they meet to sign the Uruguay Round agreements.

It is backed strongly by France and Canada, and with reservations by the European Union. Opponents argue that the workers' rights issue is either a form of disguised protectionism by developed countries or that it is inappropriate to link the issue with trade.

But Mr Kantor, the US trade representative, has written to Mr Peter Sutherland, director general of the General Agreement on Tariffs and Trade, warning: "Failure to address the labour standards issue at Marrakesh will severely undermine the broad political support that has developed for the Uruguay Round results in the US." The US wants ministers to



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NEWS: INTERNATIONAL

Central bank chief resigns in Malaysia

By Kieran Cooke in Singapore

Mr Jaffar Hussein, governor of Bank Negara, Malaysia's central bank, resigned yesterday after taking responsibility for losses amounting to thousands of millions of dollars due to trading in foreign exchange markets.

Presenting its 1993 annual report on Thursday, Bank Negara disclosed that it lost more than M\$5.7bn (£1.45bn) through foreign currency transactions last year. That followed a loss of nearly M\$10bn in 1992.

Mr Lim Kit Siang, Malaysian opposition leader, said Mr Jaffar Ibrahim, Malaysia's deputy prime minister and finance minister, should also resign and that a royal commission should be appointed to investigate the latest losses by the central bank.

"This is the greatest financial scandal in Malaysian history," said Mr Lim.

Bank Negara has long been known as an aggressive player in foreign exchange markets. Mr Jaafar said he took full responsibility for the loss.

In the absence of perfect hindsight, mistakes will be made – indeed they were made," he said.

Mr Jaafar said there had been inadequate monitoring of the bank's foreign exchange activities. "The system is put right now ... an unfortunate chapter in the bank's history is now closed," he added.

Bank Negara says that the 1993 losses were caused mainly through unwinding forward positions taken up the year before.

The bank's losses in 1992 were mainly due to the bank's ill-fated foray into sterling, in the days before the withdrawal by Britain from the European Exchange Rate Mechanism and the subsequent devaluation of the pound. Losses also came through trading in the German mark.

Mr Jaafar said that all forward trading positions had now been unwound. He said

Fines point to paranoia ahead

Kieran Cooke charts the aftermath of Singapore's secrets trial

Government officials in many countries would be delighted at a disclosure of economic growth running to more than 4 per cent – not so in Singapore.

Analysts say Bank Negara forced the ringgit to fall by more than 5 per cent against a basket of currencies at the end of 1993 by selling large amounts of the Malaysian currency and buying in US dollars. The move improved the 1993 accounts by raising the value of foreign currency in Malaysian dollar terms.

However, it also tempted speculators, who felt that the ringgit was undervalued, to charge into extensive buying of the currency.

Over the last three months, Bank Negara has introduced a series of measures to try to force the speculators out of the market.

Bank Negara also announced a net operating loss for 1993 of M\$712m, the first in the bank's history. The bank said the loss was mainly due to the "phenomenal cost" of mopping up excess liquidity in the market caused by the very large inflows of foreign funds attracted by Malaysia's strong economic fundamentals and its rapidly growing stock market.

The bank said inflationary pressures had been successfully contained.

News of the foreign exchange losses and the resignation of the bank's governor has overshadowed the bank's upbeat message about the Malaysian economy. For the sixth successive year, the economy grew in 1993 by more than 8 per cent. The bank said 1994 "promises to be yet another good year." It added that Malaysia's real gross domestic product was likely to grow by 8 to 8.4 per cent.

This verdict is bound to make analysts nervous over making any predictions about Singapore's economy'

or leaked official figures" if he was still prime minister.

The trial began in October last year. The accused – described as defence and prosecution as distinguished people who had excelled in their professions – were Mr Patrick Daniel, editor of the Business Times, Mr Kanneth James, a senior BT reporter, Mr Tharman Shanmugaratnam, director of the economics department at the Monetary Authority of Singapore (MAS), Singapore's de facto central bank, Mr Manu Bhaskaran and Mr Raymon Foo, both econo-

mists with Crosby Securities, his wife after he and others were fined in the island republic's secrets trial

hinted that certain "pressure groups" were trying to undermine the government.

In 1990, Mr Goh Chok Tong had succeeded Mr Lee as prime minister. Mr Goh had hinted

he wanted to bring in a more liberal, consultative regime.

Mr Lee said he doubted that the

Business Times would have dared to use "illegally obtained

information to try to undermine the government.

Mr Chan Sek Keong, Singapore's attorney-general, who headed the prosecution, said an important principle was at stake. "It is that persons who have been entrusted with classified information, of whatever nature in their official duties, must keep it secret."

The trial's outcome poses questions about press freedom and the handling of informa-

nated the growth figure to the two brokers. However, the judge later suggested to the prosecution that the trial could go ahead on an amended charge against Mr Shanmugaratnam of having put classified information at risk.

The trial's outcome poses questions about press freedom and the handling of informa-

tionally released classified data to newspaper readers who saw such material. If documents containing classified information are blown by the wind and land in someone's else's hand, this could be seen as a crime," said the defence.

Singapore's press is already tightly controlled and few doubt that the convictions will make journalists more nervous, particularly about investigating the workings of government.

A government spokesman described the defeat as "a bad situation". Dealers on the Thai stock exchange marked down share prices for the third day running. The SET index fell 7.6 points yesterday to close at 1,232.53.

But Mr Chuan insisted that parliament would not be dissolved. "There have been attempts to topple my government by the group of people who want to return to power," he told reporters.

The senators, who were appointed by a military junta after a coup d'état in 1991, joined with opposition members of parliament to push through their own, hastily prepared, batch of constitutional amendments while blocking the government's version.

Senators were particularly incensed by the government's plan to make the senate more accountable and reduce the number of its members to 120 from 270. The government wanted – among its other, less controversial, amendments – to lower the national voting age from 20 to 18.

The counter-proposals drawn up by the opposition alliance are regarded by most Thais as a way to undermine the government rather than a serious attempt to reform the constitution.

Pro-democracy activists who joined the uprising against the armed forces in 1992 are now in confusion. They oppose attempts by the armed forces and their allies to increase their influence but are also frustrated by Mr Chuan's slow progress. He is accused, among other shortcomings, of failing to solve Bangkok's traffic problems.

During 1992, the Thai media divided Thai politicians into pro-democracy "angels", such as Mr Chuan, and pro-military "Satanas". But Mr Sukhumvibhudh Paribatra, a prominent academic and political commentator, said after the government's defeat this week that parliament should be dissolved and new elections held. He remarked: "Now all MPs are Satan."

N Korea rejects UN plea

By John Burton in Seoul

North Korea yesterday rejected a relatively mild statement by the UN Security Council urging it to accept international nuclear inspections.

Pyongyang instead insisted that the issue can only be resolved through direct negotiations with the US, as part of an attempt to win diplomatic recognition from Washington.

The US has refused to hold discussions with North Korea until it accepts full inspections by the International Atomic Energy Agency of its seven declared nuclear sites.

The UN on Thursday adopted the statement. It lacks the threat of sanctions that had been sought by the US if North Korea fails to comply.

The statement arose from a compromise to gain the support of China, which opposes sanctions. Beijing had suggested that it would veto a tougher resolution against North Korea.

Mr Han Sung-joo, South Korea's foreign minister, welcomed the statement, saying it added "tremendous pressure" on North Korea to accept inspections. He suggested that China would support tougher actions if North Korea does not heed the UN demand, which also calls for the resumption of inter-Korean talks on mutual nuclear inspections.

Thailand reformers suffer setback

By Victor Mallet in Bangkok

Thailand's government suffered a humiliating defeat in parliament yesterday when right-wing opposition parties and the military-dominated senate threw out its plans to reform the constitution and make the political system more democratic.

The defeat raised questions about the ability of Mr Chuan Leekpai, the prime minister, to hold together his five-party coalition. The government was elected in 1992 with a mandate to strengthen democracy, after 50 people were killed in an uprising that overthrew a pro-military government.

Among those who voted against Mr Chuan's government, in a joint session of the lower house and senate, were Gen Wiru Wongwanich, army commander-in-chief, and Mr Vittij Sooknark, defence minister.

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SUBORDINATE COURTS



CONTROVERSIAL CONVICTION: Business Times editor Patrick Daniel (centre left) leaves court in Singapore with his lawyers and his wife after he and others were fined in the island republic's secrets trial

This verdict is bound to make analysts nervous over making any predictions about Singapore's economy'

The prosecution said all five had colluded in disclosing the official preliminary growth estimate; the leak had begun with Mr Shanmugaratnam and ended in the BT article.

At times during the 42-day trial, prosecution and defence argued over whether or not the figure had been communicated inadvertently and, if so, whether this was an offence.

At one stage, the prosecution case seemed in danger of collapse, with the judge ruling that there was no evidence to support the charge that Mr Shanmugaratnam had communicated any information to the authorities. The defence argued that this gave the authorities carte blanche to prosecute anyone – from senior officials who had unintentionally released classified data to newspaper readers who saw such material.

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Sleeping in Business Class. A brief history.



1968



1978



1982



1985



1989



1990



1994

The global alliance of KLM and Northwest Airlines introduces World Business ClassSM, a whole new level of service that offers you a better choice of meals, the control of your own personal video system and



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New Northwest KLM World Business Class.SM

So good you can sleep through it.

Amnesty urged for 'black' economy

By John Willman,
Public Policy Editor

The so-called "black" economy companies should be offered an amnesty on their undeclared business for agreeing to join a legitimate new sector, the Adam Smith Institute is to propose next week.

The sector would be the economic equivalent of a greenhouse - a sheltered part of the economy in which fledgling businesses could grow, according to the institute.

The think-tank, which pioneered

Thatcherite policies in the 1980s, says it would operate like a portable enterprise zone, but applying the exemptions to an economic category instead of a geographical area.

In the same package the institute proposes the abolition of capital gains tax and inheritance tax.

The radical proposals are designed to demonstrate the continuing intellectual dominance of the right in policy thinking. The institute will urge a boost to the UK economy through measures to encourage small businesses and knowledge-based compa-

nies. "The aim should be to encourage inventiveness and innovation, not to try and keep it under control," says the institute.

Among the recommendations are large tax cuts for innovative small businesses and the lifting of regulations intended for larger concerns. The aim would be to make Britain an exploiter of ideas which other countries would pay royalties to use.

The proposals will come in a list of 100 targets the Conservative party's leading free-market campaigners

believe the UK can achieve in the next 25 years. The institute will urge that the communications industry be singled out for special treatment.

Inventors and companies with innovative products in telecommunications, television and information networks should be encouraged to make Britain a world leader.

The government should set a target for every home to have access to information and entertainment through alternative transmission systems, such as terrestrial broadcasting, cable and satellite, the institute

recommends. Achieving this would mean relaxing regulation on companies to encourage expansion.

The institute will urge the government to continue cutting taxes and public expenditure over the next 25 years. It will propose a target of 10 per cent for the basic rate of tax and 30 per cent for the higher rate.

Public expenditure should be cut to 20 per cent of GDP by the year 2020, by further privatisation and cash controls on the public sector.

20-20 Vision, ASI, 28 Great Smith Street, London SW1P 3BL, £25.

Channel tunnel passenger link faces delay

By Charles Batchelor,
Transport Correspondent

The Channel tunnel will not be fully opened for passenger trains until at least September, four months after the official opening on May 6.

This will mean that the £10bn project will not be able to take full advantage of the peak summer season, deferring still further repayment of its debts. The ferry companies have leapt at the opportunity to boost their revenues by increasing sailings on cross-channel routes.

Eurotunnel, operator of the 32-mile link, said the opening had been delayed by hundreds of relatively minor problems, including difficulties with ventilation, control equipment and the rolling stock.

The company said yesterday that the September deadline did not represent a further delay, saying there had been confusion between the start date and the time when services reached full capacity. It still hoped to start a limited service to paying passengers very soon after the official opening.

Last month Mr André Bénard co-chairman of Eurotunnel, said the tunnel would start passenger services before the start of the summer season. He did not give a date for the

introduction for a full service.

Mr John Noulton, the company's director of public affairs, said yesterday: "We will start passenger services as soon as possible after the official opening. They will build up during the summer and at the end of the summer will reach a full level of service."

In the face of continuing delays with passenger services, Eurotunnel is giving priority to starting its freight services, but even these may be delayed beyond the official opening.

Mr Noulton said the company had underestimated the time it would take to complete commissioning tests. He denied that the banks had imposed any time limits on the testing programme or that there was any fundamental problem.

He said: "There are thousands of trivial problems but they were the expected difficulties. The main one was the availability of locomotives. We couldn't do all the tests or complete the training."

Freight and passenger trains have been running through the tunnel regularly in recent months as part of the testing.

A planned rights issue to raise a further £500m plus a similar amount of debt is still due to go ahead before June. Eurotunnel's interim results will be announced on April 21.



A limited edition of 850 prints - signed by Eurotunnel chairman Sir Alastair Morton - of the Le Shuttle painting by Terence Cuneo (above), the celebrated railway artist, will be on board the first passenger shuttle through the tunnel.

Photograph: Tony Andrews

Scottish terminal nears completion

By James Buxton,
Scottish Correspondent

Scotland's Eurocentral freight terminal for the Channel tunnel is virtually complete at Mossend in Lanarkshire.

When the tunnel opens one freight train a day will leave Mossend with Scottish exports.

It will be split up and mixed with trains from other terminals across the UK, to form new trains des-

tined for continental Europe.

The Mossend terminal, which is near the M8 motorway and the enterprise zone that has been created to help Lanarkshire recover from the disappearance of its steel industry, has received a strong level of inquiries from prospective users.

Personal-computer manufacturers and whisky companies are expected to use it for continental shipments.

The terminal is about 400 miles from the Channel tunnel, the distance at which rail freight is thought to become economic compared with road.

This advantage increases the further the trains penetrate into continental Europe.

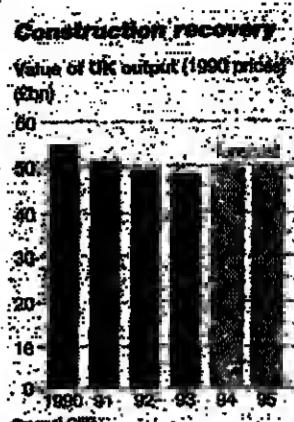
The terminal has been built by the Lanarkshire Development Agency - the local enterprise agency - at a cost of £2.6m. It will be handed over to Railfreight Distribution, which will operate it.

The terminal consists of four sidings running alongside a large tarmac expanse where containers will be moved from trailers to trains by mobile-lift equipment. The containers will pass through the administration block and under a gantry for a security inspection before Customs clearance. The site is surrounded by a high security fence.

Construction and building material companies have criticised the government for the slow pace in encouraging private investment in roads and other infrastructure which they say is essential to offset lower public investment in the mid and late 1990s.

CPR said that output in 1995 would still be 10 per cent below the 1990 peak. Competitive pressures resulting in companies taking on contracts with little or no margin for profit were unlikely to ease, with the industry expected to continue to suffer from over-capacity.

Construction output is forecast to increase 1%



The forecasting panel includes directors of large construction and building material companies, institutional investors, trade associations and public bodies.

It expects private housing to be among the stronger performers during the next two years.

The number of new private homes started by builders is expected to rise from 143,000 last year to 160,000 this year, and 170,000 in 1995.

Social housing starts, mainly by housing associations, are expected to fall from 43,000 to 40,000 this year and 36,000 in 1995, reflecting the squeeze on public spending.

Construction of infrastructure after completion of the Channel tunnel is expected to fall by 12 per cent this year and by a further 6 per cent in 1995.

This is in spite of work beginning on London's Jubilee underground line extension.

Private industrial and commercial work, after declining steadily since 1990, are forecast to enjoy modest upturns this year of 8 per cent and 3 per cent respectively, and by 7 per cent and 4 per cent in 1995.

Repair and maintenance across all sectors is expected to rise by 1 per cent and 2.5 per cent over the next two years.

Ford to lift Dagenham production

By Kevin Done,
Motor Industry Correspondent

Ford, the US carmaker, is increasing production at its assembly plant at Dagenham, Essex, in response to stronger demand in the UK new car market.

The plant, which was a byword for poor labour relations at the end of the 1980s, has also achieved a big improvement in productivity and quality, according to Ford.

The group is raising Fiesta car output at Dagenham from

940 to 1,000 cars a day from May or June, it has a capacity to produce 1,240 vehicles a day, but output fell as low as 740 a day at the bottom of the recession in late 1992.

A month ago Ford announced that it was increasing production at its plants at Halewood on Merseyside and at Southampton.

Mr Jacques Nasser, chairman of Ford of Europe, said the Dagenham plant, which also produces the Courier light-van range, had reduced the time taken to build a car

(measured in hours per car) by 45 per cent between 1989 and 1993. During the same period the cost of manufacturing Fiestas there had fallen by 23 per cent.

Ford's UK vehicle assembly plants at Dagenham, Halewood, and Southampton were now performing marginally better than its assembly plants in Germany in terms of total costs, having closed the damaging competitive gap that existed at the end of the 1980s.

Mr Nasser said the Dagenham plant had "made huge improvements in productivity and cost effectiveness, and has become a competitive manufacturer of top quality products". The turnaround in its fortunes has been dramatic and follows warnings by Ford in 1990 that its survival was in doubt.

In 1990-91 the group launched a recovery plan to improve quality and productivity. The strategy included simplifying the Dagenham operation by transferring all Sierra production to Belgium, thereby reducing the UK plant to a single model line.

Workers' anxiety about jobs reduced

By Lisa Wood,
Labour Staff

Full-time and part-time workers were equally anxious in March about losing their jobs, the latest MORI/SRS survey for the Financial Times shows.

Forty six per cent of full-time and part-time workers were either very or fairly concerned about losing their job in the next 12 months.

The trend since the monthly series started last April has been for full-time workers to be more anxious than part-time workers. Last month, however, anxiety fell slightly among full-time workers and rose among part-timers.

Workers as a whole expressed more optimism about their job prospects.

Manual workers continue to be the most pessimistic although the percentage of professional and senior managers who feel concern has climbed steadily.

Pessimism about job prospects increased consistently until July, since when there has been a high degree of volatility.

Mr David Martin, editorial director of IRS, the independent research organisation, said: "Unemployment appears to be coming down, even though a number of the jobs that are being created are part-time. However, at the same time people hear from day to day of large-scale redundancies. This may explain the volatility in terms of perceptions about job prospects."

Binder partners in Scotland oppose Andersen merger

By Andrew Jack

The Scottish partnership in BDO Binder Hamlyn, the UK's eighth-largest accountancy firm, is set to vote against a proposed merger with Arthur Andersen, the fourth-largest.

Mr Ian Valentine, managing partner for the firm in Scotland, said: "As things are, we will not go ahead. We are unable to see any strategic basis. We have a different client base, culture and fee level. It just doesn't add up."

He said that he spoke on behalf of the region's 18 partners, and added: "I am reasonably confident that we will not be the only region in the BDO network taking this view."

There are 11 regional partnerships that make up Binder, of which four appear to have come out firmly in favour of merger. The partners are expected to vote on formal proposals in the next few days.

Andersen has said that it would be willing to proceed with the merger even if it was just with the single partnership covering London and Leeds, which represents more than half of fee income.

The Scottish firm has one quoted client, Prestwick Holdings, and provides services to the subsidiaries of English-based clients.

It is believed to have received a number of approaches from other medium-size accountancy firms, and may decide to switch allegiance if the merger with Andersen goes ahead.

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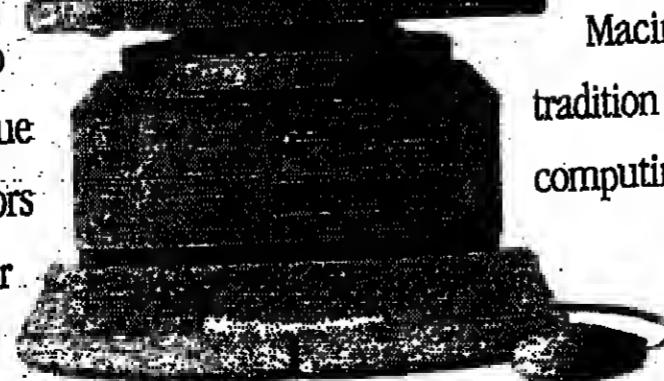
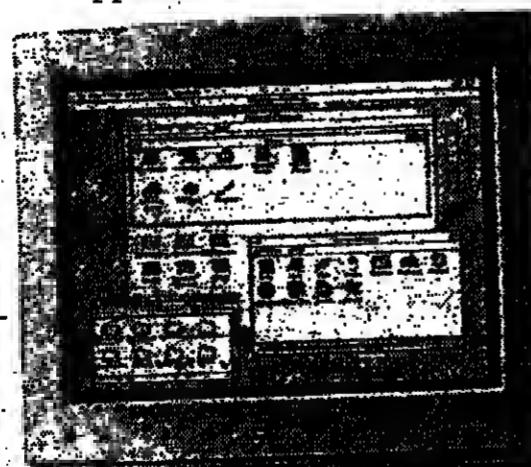
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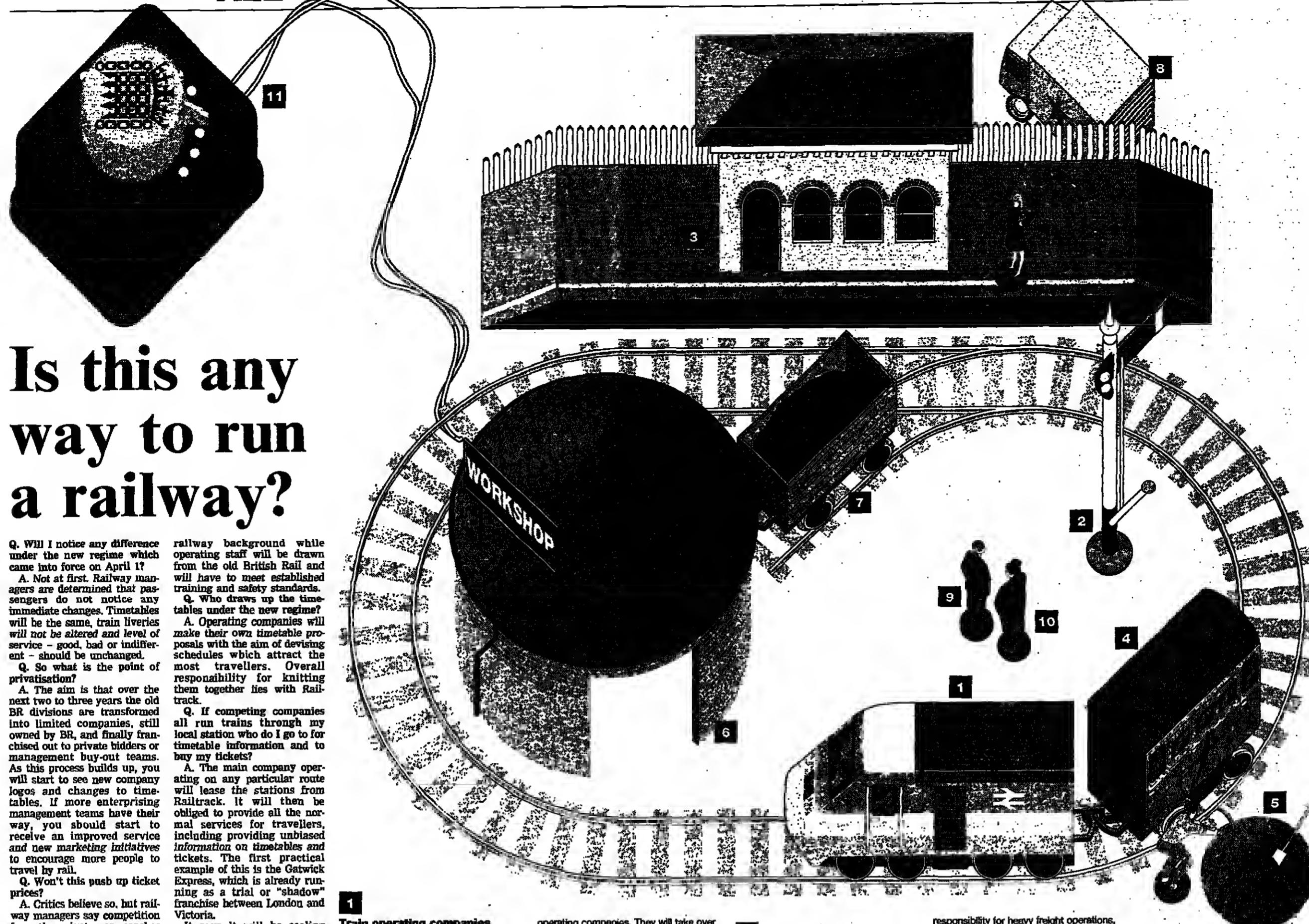
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ALL CHANGE: YOUR GUIDE TO THE NEW BRITISH RAIL



Is this any way to run a railway?

Q. Will I notice any difference under the new regime which came into force on April 1?

A. Not at first. Railway managers are determined that passengers do not notice any immediate changes. Timetables will be the same, train liveries will not be altered and level of service – good, bad or indifferent – should be unchanged.

Q. So what is the point of privatisation?

A. The aim is that over the next two to three years the old BR divisions are transformed into limited companies, still owned by BR, and finally franchised out to private bidders or management buy-out teams.

As this process builds up, you will start to see new company logos and changes to timetables. If more enterprising management teams have their way, you should start to receive an improved service and new marketing initiatives to encourage more people to travel by rail.

Q. Won't this push up ticket prices?

A. Critics believe so, but railway managers say competition from the private car, coaches and airlines means they have very little leeway to raise fares. It would also make good economic sense for train operators to fill empty seats outside the rush hour, so expect new discount fares for off-peak leisure travel. One company, South West Rail, is even thinking of free travel to reinforce people to the pleasures of rail.

The regulator is there to see that companies with effective monopolies do not misuse their power. But the system is untested, so the honest answer is that nobody knows.

Q. How will the railway be able to operate efficiently in future with so many different parties involved? It all sounds very complicated.

A. It is, but no more so than the system you are accustomed to when travelling by air. Airlines do not own airports, frequently lease their aircraft and often out contract maintenance. The government believes benefits of introducing competition will outweigh the "transaction" costs. Critics don't agree. Once the system beds down, it probably will be accepted as quite normal.

Q. Does the new system mean the government will no longer need to subsidise the railway?

A. Far from it. Subsidies will continue to most of the 25 train operating companies. In fact, the government's desire for "transparency" identifying which parts of the rail network need which level of subsidy, has doubled the sums involved. The train operating companies are now being charged the full rate for use of track, signalling and rolling stock. Under BR, some of these costs were not fully accounted for.

Q. What is the purpose of this?

A. It allows the government to identify the most costly lines and question whether further subsidy can be justified.

Q. So it can close them down and nobody will complain?

A. Ultimately, yes. But do not underestimate public support for particular lines. The government has said it does not envisage shutting down parts of the network in the foreseeable future. In the early stages at least, train operators will be required to maintain existing service levels.

Q. Will the railway be safe with all those newcomers trying to run trains?

A. All the train operating companies as well as Railtrack must prove to the safety authority, the Railways Inspectorate which is part of the Health and Safety Executive, that their systems are safe. Many of the new companies will be run by people with a

1 Train operating companies

Passenger trains will be run by 25 train operating companies. These will ultimately be franchised to the private sector for periods expected to range from five to 20 years. They will employ train drivers, inspectors and ticket office staff. They will not own many assets, renting the track they use and leasing both their trains and stations. Some companies, such as Gatwick Express, will run a single line; others such as ScotRail will operate a complete network. Employees on April 1: 49,000.

2 Railtrack

Takes over responsibility for track, signalling and its stations. It will charge the passenger train operators depending on how many trains they run. It will maintain track, bridges and stations and co-ordinate the timetables of operating companies. Responsible for the safety of the network under the eye of the Health and Safety Executive. Employees on April 1: 12,000.

3 Stations

Railtrack will own all of the nearly 2,500 stations but will lease most to train operators. The clock on the platform at my station has been broken for several months. Who is now responsible for fixing it?

A. The train operator who has the lease on your local station would be responsible for minor repairs. Structural works, such as a new roof or rebuilding a platform, are the job of Railtrack.

Q. Will the new train companies be any better at collecting fares than BR and at putting staff on lonely stations? My local station is often unstaffed and I never seem to see a ticket collector.

A. BR claims to have cut back on fares avoidance by using mobile teams of inspectors and targeting particular times of the day or week rather than staffing every ticket barrier. They claim their losses are less than the "shrinkage" suffered by retailers. BR also claims that staffing stations has no direct link of transport but there should be opportunities for smaller operators to run trains under "open access" agreements. These are intended to increase competition. But how affordable would it be to own and run a modern day railway each?

Q. What happens if I have a complaint?

A. You can complain to your local train operating company. If the problem is not its fault but results from, say, track or signalling, it will be able to put pressure on Railtrack or any other supplier. If you are not satisfied, you can also go to your regional Rail Users' Committee which can investigate complaints and bring them to the attention of the rail regulator.

Charles Batchelor

operating companies. They will take over routine maintenance such as fixing the station clock but Railtrack will remain responsible for structural repairs. About 13 of the larger stations, including Birmingham New Street, London Kings Cross and Manchester Piccadilly, where there are greater development opportunities, will be let on long leases to private companies, probably property developers. Whoever acquired the lease would let the retail outlets and provide day-to-day maintenance.

4

Rolling stock leasing companies

Three rolling stock leasing companies will take over ownership of 11,000 locomotives, carriages and freight wagons. They will lease them out to the companies operating passenger and freight services. At first they will only have second-hand BR rolling stock but train operating companies renew their fleets as they are expected to order new rolling stock. The rolling stock companies will ultimately be privatised, probably by sale to existing leasing companies or financial institutions. Employees on April 1: 150.

5

Infrastructure companies

Railtrack will contract out maintenance of track and signalling to 14 infrastructure service units. These are the men you see alongside the track in bright orange safety jackets. They carry out "heavy" work, such as renewing sections of track and putting in new ballast under the sleepers, and the lighter work of maintaining signalling and electrification equipment. Employees on April 1: 33,500.

6

Maintenance

Light maintenance, such as repairing train interiors and renewing damaged wheels, will be carried out in workshops run by the operating companies but leased from Railtrack. Major overhauls of locomotives will be carried out by one of six heavy maintenance depots. They are up for sale with bids expected from rolling stock manufacturers such as GEC Alsthom and ABB Transportation. Employees on April 1: 3,500.

7

Freight

Three new regional companies take over

responsibility for heavy freight operations, involving complete trainloads of bulk products such as coal, steel and building aggregates. The domestic container business, Freightliner, which moves container wagons from seaports to inland terminals will be sold off as a single unit. Haulmark, the international container arm, will also be sold. All freight operators will pay Railtrack for the use of its track and signalling. Employees on April 1: 13,100.

8

Parcels
Red Star Parcels, the express parcels business, and Rail Express Systems, which carry the Post Office's mail, will be sold as soon as possible. Employees on April 1: 1,800.

9

The franchising director
Mr Roger Salmon, a former merchant banker, is to arrange the sale of railway franchises. He will negotiate with potential franchisees including management buy-out teams or outside buyers such as bus companies, airlines and shipping groups. He will decide, depending on the bids he receives, the length and cost of the franchise. He also takes on responsibility for channelling any

government subsidy to the operating companies.

10

The rail regulator
Mr John Swift QC has the twin roles of promoting competition and protecting consumer interests. Encouraging greater competition will tend to bring fares down and could bring him into conflict with the franchising director, who wants to charge as much as possible for each franchise. If a train operator has a monopoly in a particular market, commuter trains into London, for example, the regulator may impose maximum fare levels. He must also approve agreements between Railtrack and the train operators.

11

Government
The transport secretary remains in charge of overall railway policy, negotiates with Treasury about subsidies and has the final say over the building of new lines or the closure of existing ones. He also appoints the franchising director, rail regulator and the chairman of Railtrack. The Treasury will decide on the level of subsidy.

Want to move from a miniature railway to the real thing? Charles Batchelor explains what you will pay

The 'train set' costs £10m, for starters

The closest most rail enthusiasts get to running a railway is a miniature lay-out in the attic or the garage. A small minority achieves the greater reality of operating one of Britain's growing number of preserved steam railways.

But buying a new train is not as simple as acquiring a new car. They are built to order and then only in production runs which make manufacturing economic. British Rail provides the opportunity for the real enthusiast to run his or her own proper railway. Most of the private rail companies are expected to run by management buy-out teams or companies already in other fields of transport but there should be opportunities for smaller operators to run trains under "open access" agreements. These are intended to increase competition. But how affordable would it be to own and run a modern day railway each?

You can complain to your local train operating company. If the problem is not its fault but results from, say, track or signalling, it will be able to put pressure on Railtrack or any other supplier. If you are not satisfied, you can also go to your regional Rail Users' Committee which can investigate complaints and bring them to the attention of the rail regulator.

Take one of the stalwarts of BR's fleet, its InterCity 125 High Speed Trains. These are diesel-powered trains which run on lines such as London Paddington to Wales and the West Country route. Now 18 years in service, after initial problems these trains are now running better and more reliably than ever, according to Mr John Cronin, BR's area fleet manager in Bristol.

A complete train set – railway jargon for a locomotive and coaches – would set you back £10m new – about £2m for the twin locos, one at the front, another at the back, and eight coaches at about £750,000 each.

But buying a new train is not as simple as acquiring a new car. They are built to order and then only in production runs which make manufacturing economic. British Rail provides the opportunity for the real enthusiast to run his or her own proper railway. Most of the private rail companies are expected to run by management buy-out teams or companies already in other fields of transport but there should be opportunities for smaller operators to run trains under "open access" agreements. These are intended to increase competition. But how affordable would it be to own and run a modern day railway each?

Fuel costs are major
charge to the motorist. The HSTs have a 1,100 gallon tank in each power unit. A large tank is needed because each train set only does half a mile to the gallon. Great Western declines to reveal what it pays for its diesel, but at the average rate charged to the private motorist a tankful will cost you just over £2,500.

Maintenance, inevitably, is costly. You can expect your locomotives to go in for a major overhaul every 2½ to

three years at a cost of £180,000 including £120,000 for the diesel engines.

The two-yearly overhaul of your carriages, mainly replacing the bogies – sets of twin axles – will cost another £100,000.

But you will also be replacing your car on the road you need to pay road tax, or in the case of a train, your access charge to Railtrack, which took over BR's track and signalling on April 1. Track charges vary but the Great Western Railway is expected to pay £120m a year. Spread that over its 36 high speed trains and you are paying £3,333 for each one.

You might think that a vehicle with metal wheels would be spared the inconvenience of punctures, but train wheels do suffer "flats". These result when a train skids, a common occurrence when leaves fall on the line. This flattens a small section of the wheel causing a bumpy ride.

The introduction of an anti-skid mechanism on the trains, akin to the anti-brake locking systems on cars, has cut the incidence of "flats" but they do still occur. Regrinding wheels will cost you £200 a time.

Few motorists reapply their cars completely, but trains require a regular repaint – by hand because the large number of windows make spraying uneconomic – to retain their looks. Expect to shell out £2,000 to £3,000 per coach once every four years and £4,000 for a locomotive or power car.

With the proper training you should be able to drive your own train, but if you go above 110 mph you must have a second driver. Drivers' basic rates start at £210 a week but the average earnings are more than £300 a week.

BR calculates that the cost of operating an Intercity train was £16 a mile in 1992-93. Compare this with the 45p per mile paid by the average private motorist and 18p to 20p per mile which Fleet Car magazine calculates for the typical business motorist driving a mid-sized car.

One consolation is that the government will help you to meet your bills. It has promised to maintain subsidies after privatisation – though the managers considering buy-outs wonder how long the Treasury will keep up its support.

Sailing has been described as the closest thing to standing in a cold shower bearing up £10 notes. Running a train is rather similar though the modern enclosed cab will at least keep you dry.

You might think that the opportunity for minor "shunts" with a vehicle which runs on a fixed line would be very small. But collisions with animals, suicides and debris on the line are not uncommon. Apart from the bonnet you are likely to suffer considerable damage to the pipework and other bits of machinery under the train. Set aside £5,000 to £10,000 for a "nose end" replacement.

Insurance is another major item for the car driver though you can reduce the charges by accepting a larger "excess." At present BR has catastrophe insurance which starts at £15m, meeting its own costs for claims below that level. You would have to shop around for insurance for your train since

Daily rap
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IPS SUMMON

Daly raps Major over IRA ceasefire

By Tim Coone
and David Owen

Cardinal Cahal Daly yesterday took issue with Mr John Major over the IRA's 72-hour post-Easter ceasefire and appealed to the government to put the sincerity of republican leaders to the test.

"I believe the opportunity should not be passed by," Cardinal Daly said. "It should not be reburdened." Speaking less than 24 hours after the prime minister denounced the IRA's move as "self-serving and cynical", the Primate of all-Ireland, the Primate of all-Ireland, responded

said the ceasefire raised "significant hope", although it was "disappointingly short".

"I am afraid, respectively, I would not agree that this is a cynical exercise on the part of the IRA," he added.

"The significance is that for the first time in 20 years they have initiated this cessation of violence. Why not test it?"

As the leaders of the three main opposition parties in the Irish republic issued a joint peace demand to the IRA, Archbishop Robin Eames, the Protestant Primate of the Church of Ireland, responded

to the ceasefire in a more upbeat vein.

Although any cessation was to be welcomed, he said: "The real Christian agenda for Northern Ireland must be written by those who see that a complete end to violence... will give us the opportunity to plan the way forward in peace and justice."

Yesterday's developments came as the British and Irish governments reaffirmed that the ceasefire, starting at midnight on Tuesday, falls far short of the permanent cessation required to admit Sinn

Féin, the IRA's political wing, into round-table talks. Sinn Féin has called for "immediate and direct talks" with the British government to obtain clarification of the Downing Street declaration signed by London and Dublin last December.

Dalhin has expressed "extreme disappointment" with the IRA's response to the declaration, with Mr Albert Reynolds, the Irish prime minister, urging Sinn Féin to spell out what it means by its latest clarification demand.

A senior aide to Mr Reynolds said he would not seek to put

pressure on Mr Major to open talks with Sinn Féin. He said that Dublin would keep communication open to Sinn Féin, and "would have no objection" if London did the same.

Underlining Dublin's growing exasperation with Sinn Féin, Mr Reynolds has departed for a week-long holiday in Cyprus.

Mr Gerry Adams, the Sinn Féin president, has said he "would not seek to prohibit" any talks with the British government and emphasised that Sinn Féin is not seeking negotiation, only clarification.

Sinn Féin is expected to further outline its position tomorrow when Mr Martin McGuinness, a member of the party's national executive, addresses a rally in Dublin commemorating the 1916 Easter rising.

Meanwhile, the Rev Ian Paisley, leader of the hardline Democratic Unionist party, said he planned to visit the US this month to "tell the truth" about Northern Ireland. Mr Paisley is to address the National Committee on American Foreign Policy, which caused controversy when it invited Mr Adams to New York.

NUT attacks other teaching unions in row over boycott

By John Authers

The largest teachers' union yesterday strongly attacked the two other classroom unions in the row over ending the boycott of national curriculum tests.

Mr McAvoy indicated that the union would oppose national tests for 11-year-olds which are due to be introduced next year, saying they would be used to select pupils for secondary schools.

His views are unlikely to sway the other two unions, although the NUT takes heart from the policy of head teachers' organisations not to ask any other teachers to do work boycotted by the NUT.

Strategists for the other unions fear that if the boycott continues the government could force them to do the tests next year, through the annual pay and conditions settlement.

Mr McAvoy attacked the ATL and NASUWT unions, both of which have advised their members to stop the boycott. Baroness Blatch, the education minister, will address both their conferences later next week.

He said: "Speakers will urge other teacher organisations to review their position on the boycott. There's a desire on the part of the other two organisations to snuggle up, if not to Baroness Blatch, then to the Conservative government."

The NUT, traditionally the most leftwing teachers' union, will consider motions to boycott the government's plans for school-based teacher training, and to consider strike action over pay, growing class

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boycott the government's plans for school-based teacher training, and to consider strike action over pay, growing class

Fraud at British Council attacked

By Kevin Brown,
Political Correspondent

The British Council, the government-funded body that promotes UK cultural interests overseas, has been strongly criticised by a Commons committee over lax accounting procedures which led to a fraud costing nearly £500,000.

The cross-party Public Accounts Committee said that the fraud was one of the biggest it had investigated, and warned that there was a risk it could happen again.

The committee said: "In a report to parliament that the council paid £261,072 by electronic transfer into the overseas bank accounts of bogus suppliers in December 1992.

Other irregularities, including fraud involving travel and subsistence claims, brought the total losses identified in 1992-93 to £589,000.

The report said a police

investigation had indicated that the main fraud was executed by "a criminal team" operating with inside information on the council's payment system. Four people had been arrested, but only £19,751 had been recovered. Police inquiries had failed to establish the source of the leak of information on the payments system.

The committee said it was "astonished" that the council's banking section did not check payment vouchers, documentation and signatures before paying suppliers. It said the council had changed its procedures to prevent further frauds, but it was "worrying" that the source of the gang's information had not been identified.

It said: "There is a risk of a further leakage of sensitive information. We emphasise the need for the council's changed and strengthened financial processes to be proof against any further irregularities."



The County Durham district of Easington, stripped in recent months of its last pits, has produced a visitors' guide which emphasises scenery and leisure amenities. It says it hopes to attract visitors to its rural calm, rugged coast and friendly people. Photograph: North News

Insurer's cash warning for low-start endowments

By Richard Lapper

One of the UK's largest insurance companies has warned customers that they may need to "choose the amounts they pay into endowment policies in order to pay off their mortgages..."

Royal Life, the life insurance arm of Royal Insurance, has written to about 24,000 of its 500,000 policyholders, triggering fears that other companies may follow suit.

The warning follows cuts in the reversionary - or annual -

bonus which Royal has paid on its "with profits" endowments in the last two years.

The policyholders affected are those who bought so-called "low start" 22 to 30-year policies in 1984 and 1982. Premiums are set at a low rate during the "early years" of the policy.

Royal stressed yesterday that customers need take no action this year. But if bonuses remained at current levels modest additional premiums would be necessary.

Mr Ichi Iqbal of Royal Life

said that following falls in inflation and interest rates the company was taking a more pessimistic view about future investment returns.

Royal reduced its reversionary bonus from 3.75 per cent to 3.25 per cent - an amount which each year is charged on and added to the basic sum insured - in January last year.

This year a so-called "super reversionary bonus", which is calculated as a percentage of the reversionary bonus, was reduced from 5.5 per cent to 5 per cent.

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Mr Heseltine accused opposition parties of spreading "scare stories" about energy prices. He said that since 1986, when the gas industry was privatised, domestic gas prices had fallen by 23 per cent in real terms. Domestic electricity prices had fallen 6 per cent in real terms in the past two financial years.

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Mr John Watt, the Conservative MP who chairs the PIA, said: "The MPs wanted to go over with the PIA some of the points that had been raised by other witnesses questioned since the authority

Heseltine defends tax on power

Gas and electricity prices "are coming down and will continue to come down", Mr Michael Heseltine, trade and industry secretary, said yesterday. Ivor Owen writes.

Most of the companies have decided to deposit the advance payments with banks and building societies, rather than Mr Tim Eggar, the energy minister, should take the lead role in trying to limit the political damage caused by the imposition of 8 per cent value added tax on domestic fuel which took effect yesterday.

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Fuel groups 'recycle' VAT bonus

By Robert Corrigan
and Michael Smith

Banks and building societies that have the regional electricity companies and British Gas as customers will be among the main beneficiaries from the rush to meet the March 31 value added tax deadline. More than 1m households met the deadline for making advance payments to avoid VAT on domestic fuel.

Most of the companies have decided to deposit the advance payments with banks and building societies, although they also mentioned money market funds as possible destinations. Manweb and Northern Electric were the only regional electricity companies to say they were still considering what to do with the extra cash.

There have been suggestions that the advance payments could total as much as £1bn.

Sports clubs are due rebates of as much as £40m after the government yesterday amended value added tax regulations to bring them into line with European Union guidelines.

The new regulations mean that playing-members' subscriptions to non-profit sports clubs will no longer attract

This will not be known until next week because of the holiday weekend.

The companies have collected more than £663m from households trying to avoid VAT, which was imposed at a rate of 8 per cent from yesterday, rising to 17.5 per cent in April next year. The £663m figure does not take into account the final rush as Thursday's deadline approached.

British Gas reported by noon on Thursday that 2 per cent to 3 per cent of its 18m domestic

yield greater than the relatively low rates on offer for savings.

Seaboard noted that its decision to deposit in building societies the £64m it received from 115,000 customers by Wednesday night meant that it was "effectively returning" the capital.

Most electricity companies say the extra interest earned will be used to cover the administrative and data processing expenses associated with the imposition of VAT.

Scottish Power will donate the extra interest it receives to groups "who have been disadvantaged by the introduction of VAT on fuel".

Midlands Electricity is to donate £500,000 to Neighbourhood Energy Action to fund energy-efficiency projects for low-income households in its area.

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Credito Italiano Banking Group, registered in the Banking Groups Register with Code No. 2003.

CALLING OF THE ANNUAL GENERAL SHAREHOLDERS MEETING

The shareholders of Credito Italiano are called to attend the Annual General Shareholders Meeting to be held on April 16, 1994 at 3.30 p.m. in the "Centro Congressi - Expo - Porto Antico" in Piazza Cavour, Varco Mandracchio in Genoa. If necessary a second sitting will be held on April 16, 1994 at the same address and at the same time, to discuss and debate upon the following

Agenda

- 1) The reports submitted by the Board of Directors and by the Statutory Auditors. Presentation of the balance sheet as at December 31, 1993 and approval of the relative resolutions.
- 2) Authorization to be granted to the Directors - following the repeal of Royal Decree Law No. 1511/1926 - to assign to the Legal Reserve for the 1994 financial year, only that amount envisaged by Article No. 2430 of the Italian Civil Code, and to transfer the remaining sum to the Statutory Reserves.
- 3) Appointment of the Board of Directors after having resolved upon its number and resolution as to its annual emoluments, as per Article No. 27 of the Company's Articles of Association.
- 4) Appointment of the Board of Statutory Auditors and of its Chairman, and resolution as to their annual emoluments. Appointment of two Alternate Statutory Auditors.
- 5) Resolution as to who to appoint to audit and certify the Company's balance sheet and the Group consolidated balance sheet for the three (3) year period running from 1995 to 1997.

All shareholders who possess ordinary shares may attend the meeting, providing that they are listed in the Shareholders Register, and that they have deposited their shares with any Credito Italiano branch or with Monte Titoli S.p.A., at least five business days before the date scheduled for the Annual General Meeting.

THE BOARD OF DIRECTORS

Shareholders are courteously invited to arrive well ahead of time, so as to expedite entrance formalities and consequently ensure that the meeting will start punctually.

Advice of the calling of this Meeting has been given to Euroclear, CEDEL and Deutscher Auslands Kassenverein AG, so that they may in turn, promptly notify their members.

MPs summon PIA again

By Alison Smith

The Commons committee examining financial regulation has summoned the chairman and chief executive of the Personal Investment Authority, the new watchdog to protect private investors, for a further session of questioning.

In a move that intensifies pressure on the regulator, which is already facing doubts

about its future, the Treasury committee will take evidence from Mr Joe Palmer, PIA chairman, and Ms Colette Bowe, chief executive, at the end of this month.

Mr John Watt, the Conservative MP who chairs the committee, said the MPs wanted to go over with the PIA some of the points that had been raised by other witnesses questioned since the authority

first gave evidence early in March.

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FINANCIAL TIMES

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Saturday April 2 1994

Back to go, painfully

Few at Christmas predicted that the world's financial markets would look as shaky as they now do at Easter. Yet there is at least one important respect in which the unsettling behaviour of the markets gives grounds for hope. The successive squalls that have upset bond and equity prices, culminating in Wall Street's nervous slide this week, are partly a reflection of a healthy global economy. Bond markets always turn when the accelerating pace of economic activity starts draining liquidity from the system. Investment in inventory, plant and machinery then takes priority over the claims of portfolio investors.

This is certainly true of the US, where business investment is buoyant and the economy is set to grow this year at between 3 and 4 per cent. The UK is following at a more sedate pace, but part of the global bond market shakeout has been to do with the growing perception that growth is reaching hitherto stagnant parts of the world. Surveys of business confidence in continental Europe reveal unexpected signs of optimism and economists are upgrading their growth forecasts for 1994. Even in Japan, where real gross national product contracted marginally in 1993 and business investment continues to fall, there is a hint that an economy which seemed poised for serious deflation may now have bottomed out.

The problem for Europe is that the impact of an overshooting US bond market is benign when prices are moving up, but threatening when they are moving down. Monetary policy in continental Europe has been too tight over the past 18 months or so when US capital has spilled over into European capital markets. Yet that same outflow has helped offset the monetary squeeze by pushing European stock and bond markets higher. This enabled European governments to finance their growing fiscal deficits more cheaply, while helping companies rebuild strained balance sheets by raising capital.

Now the sharp fall in European bond markets is, in effect, tightening monetary policy through its impact on long-term interest rates, while short-term rates remain high in real terms. Yet the Bundesbank is reluctant to change monetary tack to offset the market induced tightening. This approach is understandable while the markets are still sorting themselves out. But it continued for too long it would kill off the European recovery. The resulting uncertainty is the opposite of a recipe for an immediate soft landing in the markets, especially against a background of unusual political weakness in Britain, Germany, France and Italy. Stand by for another squall.

Neutral stance

Since his decision to raise interest rates in February, Fed chairman Mr Alan Greenspan has indicated that it is time to return to a normal or 'neutral' monetary stance. Yet the consequences of his earlier policy make it difficult to return to normal without causing markets to slide. In effect Mr

Greenspan has to keep two separate and very different constituencies happy. The first consists of sophisticated professional investors, many of whom believe that the Fed has been slow to respond to a build-up in inflationary pressure. After growth at an annualised rate of 7 per cent in the final quarter of last year a federal funds rate of 3½ per cent looks tame. The average federal funds rate since 1979 has been 3½ per cent – and that average includes periods of very tight policy.

Inflationary threat

Such investors would have been happier to see the Fed move swiftly to short-term rates of 4% or 5 per cent, instead of moving from 3 to 3½ per cent in quarter point steps. Yet there are fears that less sophisticated investors in the mutual funds – the second constituency – might then panic if they discovered, in any resulting market fall, that stock market investment is not protected by deposit insurance schemes. Small wonder Mr Greenspan has pursued a gradualist course. Yet the consequence is that the professionals become more nervous. If the inflationary threat is real, short-term rates of 3½ per cent look low for this point in the cycle. Hence much of the recent market turbulence.

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MAN IN THE NEWS: Mangosuthu Buthelezi

A prickly bear baited

There are certain politically correct clichés about Chief Mangosuthu Buthelezi, leader of the Zulu Inkatha Freedom Party: he is mad; he is a dangerous megalomaniac; he is an enemy of the South African people; he fears electoral defeat and rejects democracy; he must be stopped.

Given the imminence of South Africa's first all-race elections, between April 26 and 28, and the high hopes pinned to this great event of national catharsis, few dare stray from the realm of the politically correct to question the truth of these labels. With the jingoism of majority rule bearing down upon the nation, better simply to go on believing that Buthelezi is an evil but ultimately impotent menace; then he can be crushed with impunity, and with no fear for the consequences.

That is the reasoning which underpinned Thursday's decision to impose a state of emergency in Natal province, and the black homeland of KwaZulu (ruled by Chief Buthelezi). The elections must go on, in spite of the opposition of Inkatha, which commands a large chunk of the electorate in Natal/KwaZulu; Inkatha can be easily defeated because it commands no army; once crushed, it and Chief Buthelezi will disappear forever.

Would that reality were so simple. For Chief Buthelezi has been preparing for this battle – psychologically and militarily – for years. Since its formation as a "cultural movement" in 1975, Inkatha has worked hard to rebuild the sense of a Zulu nation, so strong in the 19th century but undermined by defeat at the hands of the British, the emasculation of the Zulu chief and the fragmentation of the Zulu king-

Shanghai, in the spring of its economic transformation, appears to be confounding even the most determined optimists. Few predicted it would move quite so fast in re-establishing itself as a financial centre and magnet for foreign investment.

After an uncertain start in the 1980s Shanghai's almost passionate embrace of the marketplace is palpable. The opening on Monday of an interbank currency market is yet one more indication of the rapid steps being taken towards restoring the city's former financial status. Indications that the Shanghai Securities Exchange will soon allow foreign brokers unrestricted membership, thus freeing them from the obligation of trading through local counterparts, is another sign of progress towards realisation of the city's dream of becoming first a national and then an international financial trading post.

All the more remarkable, perhaps, is the speed of the city's recovery after years of relative decline. This slide in its fortunes owed much to Beijing's decision to keep Shanghai, with its history of destructive radicalism during Mao's Cultural Revolution between 1966 and 1976, on a tight leash, while allowing free rein to the southern regions adjacent to Hong Kong.

As a consequence, Shanghai's once virtually unchallenged status as China's industrial and exporting powerhouse was gradually eroded. Between 1978, the year China tentatively opened its doors to the outside world, and 1992-93, its contribution to national exports declined from 30 per cent to 7 per cent.

In 1985 it surrendered to neighbouring Jiangsu province its coveted status as the regional centre with the greatest absolute value of industrial output. Like an oriental Gulliver, Shanghai was being strangled. But Shanghai's fortunes changed in 1992 when affine senior leader Deng Xiaoping, anxious to ensure his economic reforms were consolidated before he died, ordered that the shackles be removed.

The enterprising Shanghaiites

needed little encouragement to do what comes naturally to them – making money. Although substantial obstacles remain – such as a crumbling infrastructure after decades of neglect, and an archaic banking system unable to meet the demands of a modern economy – municipal officials make liberal use of superlatives to describe their ambition to transform Shanghai into the "dragon head" of China's economic revolution.

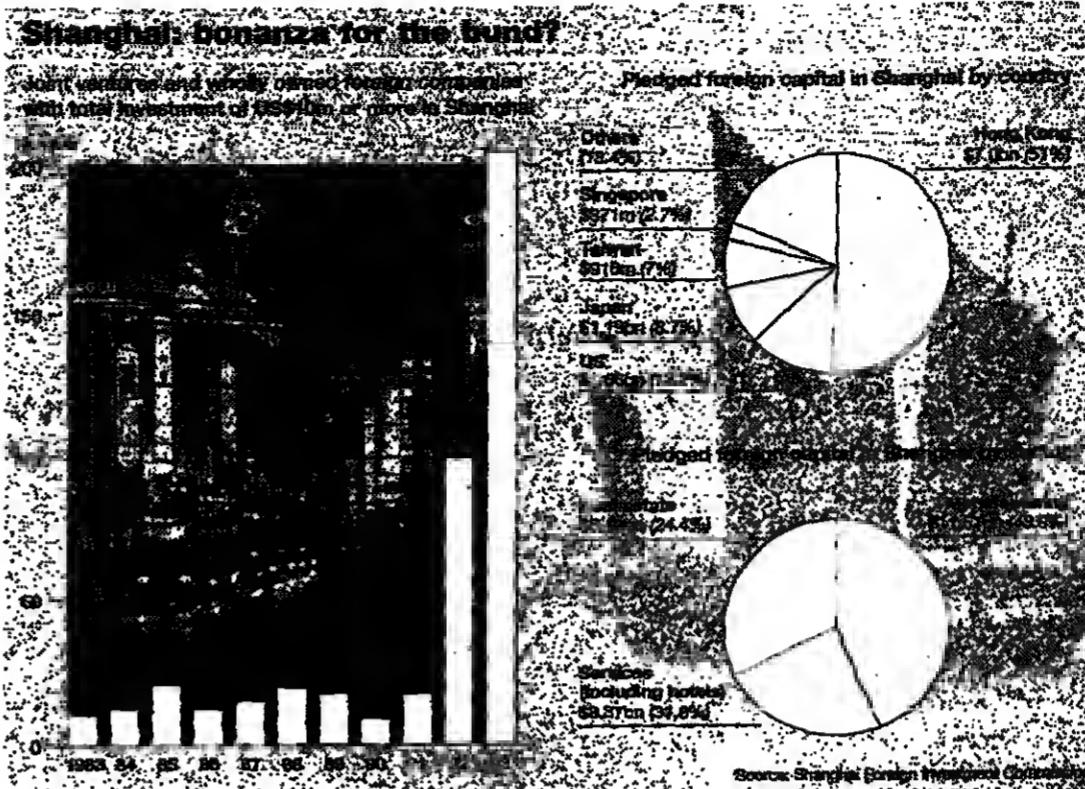
Shanghai's vice-mayor Xu Kuangdi likens the future roles of Shanghai and Hong Kong to those of complementary players in a "Beijing Opera". Hong Kong will continue to be a conduit between China and the countries of South East Asia, while Shanghai will form a "golden highway" between "China and the rest of the world".

Mr Xu would seem to have a point about Shanghai's role when it comes to markets – whether equities, bonds, commodities' futures or currencies. In scarcely more than a year Shanghai's markets have undergone extraordinarily rapid development.

The city is home to the country's three dominant commodities' futures markets – petroleum, cereals and metals. The last of these is now the world's third largest metals exchange and is beginning to influence trading in London and Chicago. Trading volume on the Shanghai metals exchange soared to Yuan388.9bn (\$44.7bn) in 1993 from Yuan45.8bn after opening

Dragon with an eye on its futures

As China opens up to the world, Shanghai's financial markets are developing fast – perhaps too fast – says Tony Walker



for business in May 1992.

Shanghai's fledgling Interbank market will form the nucleus of a national currency trading system. All important regional exchanges will eventually be linked electronically with Shanghai, and it is hoped that this will facilitate steps towards making the Chinese yuan a fully convertible international currency. But progress is likely to be slow since a national electronic dealing system is far from being in place.

The city will also soon be home to an experimental gold exchange to be organised by the People's Bank of China, the country's central bank, which holds the monopoly over gold trading.

Initially, the gold market will be restricted to enterprises directly involved in the Chinese gold industry, but gradually it will be allowed to evolve into a gold exchange open to the public. Chinese consumers last year purchased 223 tonnes of gold jewellery, according to the World Gold Council, making China the fourth biggest market for gold behind the US, India and Saudi Arabia.

It is a measure of Shanghai's growing strength as a financial centre that attempts by provincial governments, such as Jiangsu, to establish their own futures markets are tending to wither on the vine. Indeed, the central authorities have called a halt for the moment to the proliferation of futures exchanges following the near collapse of some and pending the drafting of new trading regulations.

Shanghai officials are using the

city's revival to spur the growth of what they refer to as its tertiary sector, which includes both financial services and high-technology industries. At the same time the city is shrinking the low-technology state-run sector dominated by textiles. By the year 2000 tertiary industries will account for 45 per cent of the city's economy, against 37.8 per cent at the end of 1993, according to the municipal plan.

In this, the municipality is being assisted by a surge in investment, much of it destined for projects in

the city's new Pudong Development Zone, on the east bank of the Huangpu River.

In the first two months of 1994, foreign investors pledged \$1.1bn of new investment. By October, according to the American Consulate, 86 "Fortune 500" companies had invested in Shanghai, including McDonald Douglas, Du Pont, Xerox and Coca Cola.

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some 133 A and B share companies had been listed, up from 38 a year earlier. Numbers of listed companies grew further to 177 by the end of March.

Western securities analysts in Shanghai believe the gloom in the stock market is temporary and is, in any case, attributable to a difficult learning process among investors unaccustomed in the vicissitudes of the marketplace.

Mr John Crossman, chief representative in Shanghai of the Jardine Fleming securities house, says it is understandable that China's emerging markets should be volatile, and he expects this pattern to continue for the next five to 10 years: "There's tremendous risk in this market, but there are also prospects for enormous gain. It's going to be wild."

The disappointing performance of Shanghai securities markets and reservations about China's regulatory abilities have not deterred foreign banks and securities houses from moving to the city. At last count, there were 26 foreign brokerages in Shanghai dealing in B-shares – including Barings, Jardine Fleming, Crédit Lyonnais and Standard Chartered.

Hedge-pressed officials at the stock exchange joke that it seems now to have become the city's principal tourist attraction. Among a steady stream of high-level visitors in the past weeks have been Sir Andrew Hugh Smith, chairman of the London Stock Exchange, Mr Joseph Hardiman, president of the US NASDAQ exchange and Mr Peter Barrington, chairman of Barings.

Not least among the attractions for them is the prospect of Chinese pension funds, which, swollen with contributions, would seek help in investing vast amounts of money internationally. With China undergoing such a rapid transformation to a market economy, and with a process of corporatisation of previously state-controlled industries well under way, it is only a matter of time before Chinese superannuation funds develop a big appetite for investment opportunities abroad. The development of Chinese mutual funds and unit trusts is also in the wind.

The markets, including securities and commodities' futures, are also labouring under a lack of national regulations. Insider trading is a persistent problem, especially in the commodities' exchanges, where some of the bigger players are also China's monopolistic state trading corporations. This poses a threat to individual and smaller institutional investors who are in danger of being squeezed. The drafting of a new securities law and commodities trading regulations is progressing slowly, to the chagrin of local securities traders. Market managers recognise the need for a confidence boost to lift the equities markets, which have been depressed since last year and show little sign of recovering. This has tested the nerves of local investors who have been deserting stocks in droves for currencies and futures.

The Shanghai A-share market, restricted to Chinese investors in local currency, fell by about 50 per cent last year from a high in mid-February 1993. The B-share market, denominated in US dollars for foreign investors, has also experienced a bumpy ride and is well off its highs of last year.

In spite of its bearish mood, the equities market is still developing fast. Trading volume increased five-fold in 1993. At the end of last year

Shanghai by representatives of the international financial community show that, after years of isolation, China and Shanghai in particular, is being drawn inexorably into the world trading and financial system. But representatives of foreign securities houses also caution that Shanghai has a long way to go towards realising its ambition to rival New York, London or Tokyo.

Apart from an archaic banking system (banking reform lags far behind other sectors) and lack of full currency convertibility, Shanghai also labours under the burden of a primitive legal framework and an absence of transparency in financial rules and regulations.

But foreign bankers and securities traders believe that these impediments may not be a bad thing for the time being. "They shouldn't go forward too quickly," says Mr Crossman of Jardine Fleming. "If they move too fast they run the risk of not having the regulations in place to assert control. Their banking system could not cope, for example, with vast sums of money flowing in and out."

Shanghai may have to learn to be more patient if it is to consolidate

its gains – but patience does not appear to be a conspicuous virtue these days in a city striving to regain its former glory.



resist the temptation to prod the angry bear that resides in Chief Buthelezi's soul. They know they will get nowhere by humiliating a man whose sensitivity borders on the paranoid. They know that any attempt to trick him will backfire because he cannot bear to be taken for a "stupid kafir", as he so often points out; yet they offer him constitutional concessions which look good but mean little, and hope he will not notice. And most seriously of all, they think he has no true support and can be crushed by the legitimate will of the majority. In short, for the ANC, Buthelezi is a dictator clinging illegally to power, with no genuine constitutional complaints and no intention to negotiate. Their conclusion: accommodating him is not only unnecessary, but impossible.

That may be true now, but it was not always so. Even early this year, the ANC could have had a deal with Inkatha relatively cheaply, by agreeing to devolve real power to the provinces, rather than guarding it at the centre. The Zulu King was then on the sidelines, and could have been assured a place as titular monarch of Natal/KwaZulu, by guaranteeing the security of royal lands and palaces. Only when that deal fell through did he enter the fray, increasing tension by calling for a sovereign Zulu kingdom and commanding his subjects to defend their nationhood.

The chances are it is too late for a deal, and further violence is inevitable. Many would welcome his demise, in South Africa and abroad. He has alienated almost every local and foreign friend he ever had. His counter-productive propaganda machine has made it impossible to understand his policies, let alone defend them. He is, quite simply, in the way, obstructing the event millions worldwide have waited decades to see, the death of apartheid and the birth of a new non-racial democracy. And if he does not move, he will be removed by force – whatever the consequences.

Patti Waldmeir

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Name _____

Shoppers in the line of fire

Emma Tucker and Philip Coggan on effects of UK tax rises

If it were not for the British consumer, the economy would still be looking grim. Spending by individuals has motored the UK back to recovery over the past year or so. But this weekend, it is as if they are being penalised for their efforts.

Building societies have already written to mortgage holders informing them that payments will rise at the end of April because of a cut in tax relief on interest payments; VAT was imposed on consumers' gas and electricity bills from yesterday, and take-home pay will also drop, with increased national insurance contributions and a reduction in the married couple's allowance.

In total, the tax changes will raise about £8.4bn in 1994-95, or 1.3 per cent of gross domestic product. Over the next three fiscal years, they will raise a total of between £15bn and £17bn, the equivalent of 7p in the pound on the standard rate of income tax.

Mr Kenneth Clarke, the chancellor, says the tax increases – introduced in the last two Budgets – are essential to reduce the public sector borrowing requirement, which is expected to reach about £24bn in 1993-94. The government believes the present PSBR is enormously high and has to be reduced in order to regain control over public finances. Moreover, it argues that a low PSBR would encourage confidence. But with recovery still fragile, is Mr Clarke wise to tinker with what is currently the economy's main driving force?

A particular feature of the recovery is that it has been almost entirely consumer-led. Since early 1992, consumer spending has risen by an average of 2.7 per cent a year, while government expenditure and private investment – the other main components of demand – have barely increased.

In contrast, the recovery after the recession of 1974-75 was led by strong export growth, while that of the early 1980s was – at least initially – spurred by a rise in capital spending.

This time, consumer spending has been encouraged by a fall in mortgage rates, from a peak of 15.4 per cent in 1990 to about 7.5 per cent today. The benefit of lower rates is

still being felt, as homeowners with mortgages reviewed annually switch to making lower payments.

The continuing impetus to growth from interest rate cuts allows the government to argue that the recovery can withstand tax increases. This conclusion is shared by the majority of the Treasury's six "wise men", or economic advisers, in their latest report.

Several City analysts agree with the Treasury panel. Mr Kevin Gardner, UK economist at investment bank Morgan Stanley, says some of the tax increases, such as on tobacco and vehicles, have already been introduced, while others – the freezing of tax allowances, for instance – will not reduce nominal take-home pay. "Roughly half the fiscal pain [from higher taxes] is either behind us or will go unnoticed," he says.

Mr Gardner predicts GDP growth of 2.8 per cent this year, compared with the Treasury's forecast of 2.5 per cent and with 1.9 per cent in 1993. He forecasts that, without the tax increases, consumer spending would have grown by up to 4 per cent this year, but he still expects a healthy 2.7 per cent rise.

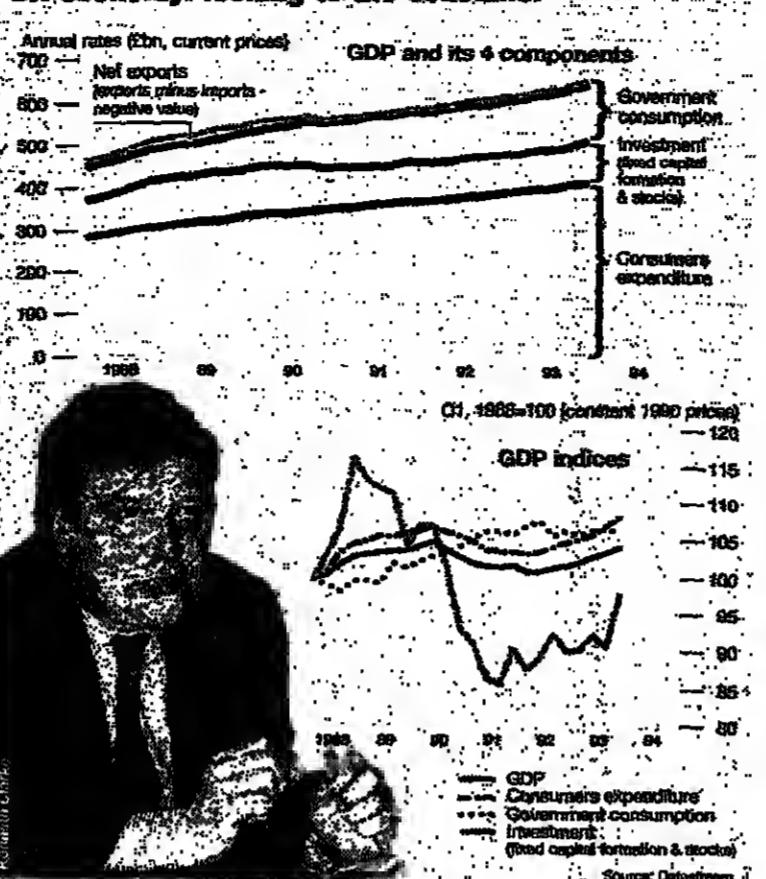
Similarly, Lombard Street Research, part of discount house Gerard and National, concludes: "Concerns [about the tax increases] seem exaggerated, given that the increases will amount to only 1 per cent of personal disposable income in 1994-95 and about 0.2 per cent of personal wealth, and have been known about for a year."

There is some evidence to support the argument that the tax increases are not coming as a shock to consumers. They appear to have started scaling back their spending already: the annual growth rate in retail sales slipped to 2.8 per cent in February from 3.7 per cent the previous month.

Even if the tax increases do have an effect, consumers could keep spending at the same rate by increasing borrowings or by running down their savings.

There are three incentives for consumers to reduce their savings: falling interest rates, from a peak of 15.4 per cent in 1990 to about 7.5 per cent today. The benefit of lower rates is

UK economy: looking to the consumer



need for precautionary saving; lower nominal interest rates; and subdued inflation. The savings ratio – personal saving as a percentage of disposable incomes – dropped to 10.2 per cent in the last three months of 1993, from 11 per cent in the previous three months.

It may fall further. Mr Adrian Cooper, UK economist at broker James Capel, predicts that by 1994 the ratio will have fallen to about 8 per cent.

That, he reckons, will be in line with the equilibrium savings ratio in periods of low inflation, such as the

1950s.

But not everyone shares the government's confidence that consumer spending will withstand the tax increases. Professor Wynne Godley of Cambridge University, a dissenter among the six wise men, says: "This is a very feeble recovery. The balance of payments is weak; unemployment is still high and output is unimpressive. If it was not for the falls in unemployment, you would not have much sense of a recovery."

Similarly, Mr Peter Warburton, at Robert Fleming Securities, says it is doubtful that growth has gained

enough momentum to resist the fiscal tightening. "If interest rates had been cut earlier in the year, then we could perhaps have started off on a positive footing. Now we are facing the most unpleasant change in taxation for 13 years, and negative momentum is liable to build."

Nevertheless, even if the tax increases do depress consumer spending more than the government might hope, there could be long-term beneficial effects. In the past, surges in UK consumer spending have sucked in imports, leading to deterioration in the balance of payments, a fall in sterling and eventually a rise in interest rates.

The UK's trade position is already deteriorating. The current account deficit widened to £25.6bn in the last three months of 1993 from £1.8bn in the previous three months, as earnings from services and financial transactions proved insufficient to compensate for the deficit in "visible" goods.

Mr Andrew Sentance, of the London Business School, says: "Consumer spending now absorbs a much higher share of GDP in the UK than in other countries, reducing the proportion of national resources devoted to investment. If that imbalance is redressed, the UK will be able to maintain a higher rate of investment without balance of payments or inflation problems. That should put the economy in a better position to sustain growth over the medium term."

There are some tentative signs that investment is emerging from the recessionary doldrums. Gross domestic fixed capital formation increased by 2.5 per cent between the third and fourth quarters of 1993, the fastest quarterly increase for five years.

The risk, which cannot yet be ruled out, is that Mr Clarke has got his calculations wrong – and has stifled consumer spending to such an extent that the recovery will stall. But the pick-up in investment offers some encouragement to the government that the tax package will amount to a gentle application of the brake, allowing the economy to steer a smoother growth path.

Personal tax checklist, Page III, Weekend FT

Ian Davidson argues that the UK has averted one European crisis, but a showdown is inevitable

Vengeance of a Union scorned

John Major's campaign over voting rights in the European Union has averted a serious crisis in Europe. But this is at best only a temporary truce in the UK's long-running battle to resist and, if possible, reverse the trend to closer political integration in Europe. The prime minister has abandoned this particular attempt to reduce the scope of majority voting in Europe, but his government remains unconvinced to the objective of a quasi-federalist Union which is supported by most member states.

What has happened this week has settled nothing in Britain and settled nothing in Europe; it is only a short-term postponement of a showdown between the UK and its European partners which is steadily becoming more inevitable.

Such a showdown is already in the offing, in wait, in the Inter-Governmental Conference scheduled for 1996. Mr Douglas Hurd, UK foreign secretary, tries to minimise the significance of this week's capitulation, by implying that it could be reversed in 1996. In reality, the central aim of the IGC, in the minds of most member states, will be to strengthen political integration. It is therefore bound to be a scene of confrontation between Britain and its partners.

Moreover, by then the political stakes will have been raised by another order of magnitude, because the west European partners will be wrestling with the political implications of expanding their Union into central and eastern Europe. London claims to believe that enlargement of the Union will, or at least should, turn it into a looser, more inter-governmental type of grouping. But most of the other members maintain that a larger Union must become more integrated, and no doubt the candidate countries in eastern Europe will agree with them.

But by the time of the regular European summit in the summer of 1992, governments were having second thoughts. They had been deeply shaken early in June, when the Danish electorate turned down the Treaty of Maastricht. So when the 12 leaders met later that month in Lisbon, they were doubly anxious to avoid any bruising new arguments over politically sensitive issues.

They announced that this enlargement could take place without any revision in the principles of majority voting or the future of the institutions.

Chancellor Helmut Kohl has made clear that he will be pressing for the opening of the European Union to the east, and he has explicitly denied the idea that such an enlarged Union should be turned into a loose free trade area.

Paradoxically, the confrontation over blocking minorities blew up precisely because the member states had wanted to avoid it. In the spring of 1992, it was argued, by the Commission among others, that the prospective negotiations to expand the EC through the admission of the four European Free Trade Association countries, would require a big revision of the decision-making arrangements, including national voting weights and majority voting rules.

Decision-making was already difficult enough in the Community of 12; so the rules had to be adapted to make sure that it did not become more difficult in a Community of 16. A second reason was that existing voting weights were skewed in

favour of the small members: Germany, for example, has 200 times the population of Luxembourg, but only five times the number of votes in the Council of Ministers. Since all the Efta candidates were small, enlargement would make this bias in favour of small countries even worse.

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By implication, these questions would be back on the agenda for the following enlargement, taking in

the countries of eastern Europe. In the meantime, new members from Efta would have the same voting weights as corresponding existing members, and the required majority thresholds would be adjusted mechanically.

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two small countries, mustering more than 40 per cent of the population of the Union, could be outvoted by the rest; but eight small countries, with barely 12 per cent of the population of the future 16 members, would command a blocking minority. The original small-country bias was part of the founding bargain between the six like-minded states; but the imbalance is becoming more acute in a Community where members are less like-minded, and some (like Britain) not committed to a blocking minority.

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If the voting weight bias favouring the little countries is ever to be reversed, the reform will obviously have to be paid for, and the currency of payment will probably have to be more integration. That is the challenging position, as sketched out by the Belgian government if political legitimacy is said to reside essentially with the nation states and the sovereignty of national parliaments, then this fact

must be reflected in the (relative) equality of the nation states in Brussels; but if it is claimed that population counts, then this fact must be reflected in the democratic legitimisation of the Brussels decision-making process.

In theory this week's compromise settlement should close off until 1996 the danger of a crisis over the institutions of the Union. But that crisis may yet break in through another door, if the German government lives up to its declared determination to hurry the opening of the Union to the countries of eastern Europe.

Clearly they will not be ready for full economic membership of the Union for some years to come. But if Germany presses for a different form of political membership, then it will become impossible to resist the reopening of all the issues of decision-making and voting weights and institutional legitimacy, which many had thought had been quietly put off to another day.

Comparisons between the UK and the US illustrate the scope for growth. In the US, the typical home phone is used for 18 minutes a day, whereas in the UK it is used for 14 minutes a day instead of four. BT could spend £1bn a year on building a UK-wide fibre-optic superhighway, lose a quarter of its domestic customers to Mercury and the fledgling cable companies, and still turn in larger profits than today.

Such thinking explains why BT's forthcoming advertising campaign, to be launched next month, will focus on two messages: the real cost of a phone call, and how it can improve the quality of life. It may also explain why Mr Stafford Taylor, BT's new head of personal communications, says BT's mission is to get friends and relations to speak to each other – a far cry from the old days, when BT was a nationalised utility, and it took weeks even to get a phone connected.

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BT's figures might lead it to use advertising to persuade men to make more social calls and women to work more from home. But if the US is any guide, phone companies and consumers alike would gain most from a fierce, well-publicised price war. Consumers would have the actual cost of calls drummed into them; line usage would rise; phone company profits might be boosted – in the cause of getting people to talk to each other.

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NHS draft governance codes not adequate on internal auditors

From Mr Andrew Chambers.

Sir, Alan Pike reports Mr Alan Langlands the new chief executive of the National Health Service, as stating that the draft codes on corporate governance, published by the NHS executive, have received positive comments from professional bodies ("Health pay puts off internal auditors", March 30). I would like to point out that the Institute of Internal Auditors UK was disappointed with certain elements of the draft.

While the IIA-UK applauds the move for stronger internal control, it believes that Mr Gordon Greenhields, head of the NHS finance executive, was misguided in recommending that internal auditors play a vital role in ensuring that these risks are minimised.

Andrew Chambers,
chairman, professional
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London SW4 7BX

From Mr Leslie Thain.

Sir, The debate rages on in your editorial ("Late payment of bills", March 28) with regard to the need for legislation to assist the cash flow of small and many medium-sized businesses.

It is perhaps likened to killing the proverbial "cat". Why can MPs and others who lobby not see that this action will only accelerate the demise of the small business? All the

major customer will do is use a supplier (accepting, of course, that some suppliers might just have an added "unique" product advantage built in) which tends to be more lenient with regard to cash collection. The dog-eat-dog syndrome will ensure that there are many other willing suppliers happy to fill a hole left by a conscientious objector.

As for balance sheet policing, a simple window dressing exercise at the year end will resolve that. The solution lies simply in ensuring that adequate, skilled resources are applied to the management of assets.

Until then, I fear, the giants will continue to hold all

COMPANY NEWS: UK

Redland better than expected with £279m

By Andrew Taylor,
Construction Correspondent

Pre-tax profits of Redland, one of Britain's biggest building material groups, jumped by 40 per cent last year from £199m to £279m.

Comparisons between the two years were distorted by profits and losses on the disposal of businesses and properties. A better guide to performance was a 28 per cent rise in operating profits, after interest payments, to £267m (£206m).

The shares, following the better than expected results published on Thursday, rose 15p to 530p. The market was also encouraged by the company's comments about the continuing strength of the German housing market and rising UK building material prices.

The company said it had generated £297m of cash during 1993, compared with an outflow of £369m in 1992. This had enabled it to reduce net bor-

rowings from £651m to £394m and gearing from 57 per cent to 41 per cent, including auction market preferred stock as debt.

Turnover rose from £2.05bn to £2.47bn. Earnings per share rose to 26.1p (23.7p), adjusted for the loss on the disposal of an investment in an associate.

The maintained final dividend of 18.75p makes a same-again total for the year of 25p.

Mr Robert Napier, chief executive, said: "In the UK prospects do at last look more encouraging, with the housing market improving. After many years of decline, building material prices and margins are now recovering. The changes to the road programme announced by the government are unlikely to have any adverse impact in 1994 and 1995."

UK operating profits in 1993, excluding £6m for the costs on plant closures, rose from £239m to £281m.

Trading remained strong in

Germany. Housing permits issued in eastern Germany more than doubled and over the country as a whole the rise was 22 per cent. German operating profits increased from £115m to £160m.

Profits from the US more than doubled to £54.5m (£28.7m) assisted by increased sales in Florida following Hurricane Andrew and the completion of Denver's new international airport.

These special factors may not be repeated, but the company was encouraged by rising US construction activity as the economy continued to improve.

Mr Napier said that elsewhere in Europe the outlook was mixed, with the Netherlands steady but little sign of improvement in France.

Australia and the Far East were trading well. Overseas profits, in total, rose from £239m to £281m.

See Lex

Westland joins GKN stable

By Tim Burt

M&G and Schroders, the largest institutional shareholders in Westland Group, are expected shortly to accept GKN's increased takeover offer for the helicopter manufacturer.

The two institutions, which together control 25 per cent of the Yeovil-based company, are likely to take the revised 335p-a-share cash offer following the Westland board's reluctant decision to recommend acceptance of GKN's £577m hostile bid.

Mr Alan Jones, Westland chairman, made the recom-

mendation following a meeting on Thursday with Sir David Lee, his GKN counterpart.

Sir David told him that the engineering group had secured enough shares to ensure its stake could not be diluted below 50 per cent.

GKN, which increased its 290p-a-share offer by 15 per cent earlier this week, has purchased more than 13.4m London shares at 335p and now controls 52.3 per cent of the enlarged share capital - allowing for conversion of preference shares.

Although Mr Jones claimed GKN's revised offer still undervalued Westland, he told investors:

"It would not be in the interest of shareholders or warrant holders to continue to retain minority holdings in a company that formed part of the enlarged GKN group."

Royal Insurance, which controls 4 per cent of Westland, has signalled its intention to follow the recommendation and other institutions are expected to follow suit.

United Technologies, the US parent of Sikorsky helicopters, will also gain from the revised offer.

The group is expected to receive around £86m rather than the 275m on offer at the 290p price.

Calor boosted to £51.5m

By David Wighton

Calor Group, the dominant supplier of bottled gas in the UK, is increasing its dividends for the first time since it demerged its oil interests in 1988.

A final dividend of 6.5p increases the total for 1993 to 12.5p (12p) out of earnings per share which recovered to 19.5p (12p).

Pre-tax profits rose by £1.7m to £51.5m last year largely because of the absence of £14.8m of exceptional costs, incurred in 1992, relating mainly to the restructuring of the core gas business, the directors stated.

Mr Howard Robinson, chief executive, said the dividend increase reflected the company's strong balance sheet and cash flow. "We also wanted to restore income for shareholders after the advance corporation tax changes last year."

However, he added that it should not be taken as a signal that dividends would rise "ever onwards".

The company has cut its costs by more than £15m a year, reducing its staff by 1,000 to 2,000, in an attempt to stem the long-term decline in its market share.

"In 1993 we used the cost savings to offer better value for money to our customers which reinforced our position as market leader," said Mr Robinson.

Calor cut its prices which stimulated higher sales volumes with little help from the weather or the economy.

Group turnover fell nearly 5 per cent to £295.9m and Calor's own cost of gas rose but, thanks to the restructuring, operating profits from the core gas business were little changed at £51.4m.

Rugby cuts flotation price to 115p

By Simon Davies

Hillsdown has decided at the last minute not to sell its stake in Rugby Estates, the company run by its former property team, because of a significant cut in the flotation price.

The pricing for the Rugby flotation was announced on Thursday, and the property company is being valued at £20.75m, compared with an initial target of up to £30m.

The offer comes in the middle of a glut of property flotations, a sharp reduction in the property sector's premium to

asset value, and the recent under-subscription of the public offer for Capital Shopping Centres.

These factors forced the company to scale down pricing and the size of the share offer. It is placing 13.34m shares at 115p, which will raise £14.24m for Rugby, compared with the initial aim of raising £19.7m from the share offer. The placement amounts to 73 per cent of the enlarged company.

The pro-forma net asset value per share is 116.8p and the issue price therefore represents a 13 per cent discount to

NEWS DIGEST

Downturn in France hits Ash & Lacy

A difficult year for its galvanising plants in France left 1993 pre-tax profits for Ash & Lacy, the metalwork company, 9 per cent lower at £3.41m, against £3.74m.

Turnover was slightly higher at £54.2m, compared with £53.9m.

The West Midlands-based company said that trading conditions had continued to be difficult, particularly in France which suffered a further weakening of demand affecting its large-scale plants.

UK galvanising increased sales and profits with a good contribution from the Midlands and manufacturing increased profits as a result of a good performance from the storage tank division.

Earnings per share were 8.28p (9.76p). An unchanged

final dividend of 3.9p maintains the total at 6.4p.

Glenchewton

A strong second half performance enabled Glenchewton, the toys, housewares and hardware company, to swing from losses of £2.2m to profits of £206.000 pre-tax for 1993.

Turnover from continuing operations improved by 19 per cent from £16.2m to £19.2m. Earnings per share emerged at 1.89p (losses 9.25p).

Boxmore

A 23 per cent increase in pre-tax profits was announced by Boxmore International, USM-quoted maker of packaging products, for 1993.

On turnover of £23.6m (£21.2m) profits improved from £3.62m to £4.45m.

Mr Harold Ennis, chairman, said several competitive pressures had prevailed in most of the group's markets and prices either remained stable or fell. The better margins were a

result of innovation and improved efficiency, he added.

Earnings per share rose to 16p (13.1p). Because of the placing to fund the acquisition of Label Research, a second interim dividend of 2.75p in February, making 4p (3.65p) for the year.

African Lakes High interest rates in Zimbabwe and Malawi affected the results of African Lakes Corporation, which announced pre-tax losses of £222.961 for the year to September 30 1993, compared with profits of £1.28m restated in accordance with FRS 3. Profits last time included a £542.813 profit on property sales.

The company, which has interests in motor trading, agriculture, mining, engineering and computer supplies, said the impact of economic problems in Malawi had been worse than expected and operations there, traditionally the strongest contributor to second half profits, had suffered badly.

Turnover fell to £48.7m (£50.5m) generating operating profits of £530.219 (£1.52m). Losses per share were 13.04p (4.27p earnings) and a nominal dividend of 0.5p (2p) is proposed.

Anglo Pacific Res

Anglo Pacific Resources, the USM-quoted mineral exploration and coal producing group,

Adjournment puts Heron creditors in confusion

By Maggie Urry

Creditors of Heron International were left in confusion on Thursday, after meetings of senior and junior bondholders were adjourned in the absence of a quorum.

The meetings were held to approve a deferral of interest payments due on Thursday until the end of June.

With the interest left unpaid, the bonds are technically in default, though as yet no creditor has moved against the company. Under the terms of the trust deeds, holders of at least 25 per cent of the bonds can ask the trustee to act.

Holders of 35 per cent of the bonds either attended the meeting or voted by proxy, but the quorum required was at least 50 per cent. The meetings were therefore adjourned and will be called again, probably towards the end of April. At least 14 days notice is required. At the reassembled meetings the quorum is two holders, whatever the value of the bonds they hold.

Heron had warned that without the interest deferral, and the postponement of other payments due, the property and trading group might be unable to continue trading.

In a separate development, Heron Properties, the US arm of Heron which was detached from the group under last year's refinancing, is being sold in the New York Supreme Court by Strategem Development Corporation.

Strategem - which is also suing nine banks and four people, including Mr Gerald Ronson, chief executive of Heron International, and its head Mr Simon Shane - and Heron have been embroiled in litigation for some years.

Strategem is asking the US court to set aside the restructuring of the US companies on the grounds that it constituted "an unlawful fraudulent conveyance". It asserts that Heron Properties gave security over assets to the nine defendant banks with the intent of preventing the payment of unsecured creditors such as Strategem.

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Side

INTERNATIONAL COMPANIES AND FINANCE

Renault beats forecasts with FFr1.07bn profit

By John Riddings in Paris

Renault, the French state-owned vehicle group, suffered a sharp fall in profits last year, but managed to achieve a net result of FFr1.07bn (\$186m) despite the contraction in the European car market. Mr Louis Schweitzer, chairman, forecast improved earnings in the current year.

The result for last year, which compares with net profits of FFr1.68bn in 1992, was higher than most industry analysts had forecast. Mr Schweitzer said it demonstrated the competitiveness of the company in the midst of depressed markets, adding that few other European car manufacturers had managed to remain in profit through the recession.

The Renault chairman said the group was seeking to forge new industrial partnerships following last year's collapse of its plans to merge with Volvo. But he played down the prospect of a far-reaching alliance. "We need to develop limited

co-operation agreements with competitors like other players in the industry," he said.

Mr Schweitzer said talks were being held with Fiat of Italy, but denied a "global" agreement was being discussed. The negotiations are thought to include the sharing of foundry facilities. Renault dismissed the idea of plans to exchange engines with Fiat or to seek an alliance between RVI, its trucks and buses division, with the Italian group's Iveco truck operation.

Last year's profits were supported by financial income of FFr537m, compared with a charge of FFr45m in 1992, reflecting lower interest charges and improved income from its financial subsidiaries. Reduced losses from its shareholding in Volvo, which has been partly unwound since the collapse of the merger, also helped earnings.

Mr Schweitzer's prediction of an improved performance this year is based on signs of recovery in the European vehicle market and continued cost-cut-

Recovery at Paribas continues over year

By Alice Rawsthorn in Paris

Paribas, the leading French banking group, last year confirmed its recovery with a 64 per cent increase in net profits to FFr1.45bn (\$253m) from FFr886m in 1992.

Mr André Lévy-Lang, chairman, said the group, which fell into the red in 1991, benefited last year from a strong performance in market trading activities and also from its US and Asian banking interests. However, he added that it had continued to be adversely affected by the European recession.

The group mustered a 13 per cent increase in operating income to FFr32.68bn in 1993 from FFr28.96bn in 1992. Net banking income rose faster, despite the sluggish state of the French market, with a 21 per cent rise over the same period to FFr31.31bn from FFr25.88bn. However, revenue from other sources fell by 56 per cent to FFr1.37bn from FFr3.08bn mainly due to a reduction in asset sales.

Gross operating profits rose by 16 per cent to FFr13.08bn from FFr11.23bn. However, Paribas was again forced to make hefty provisions to its non-performing property and industrial investments.

The level of operating provisions was 15 per cent higher in 1993 at FFr7.73bn against FFr7.65bn in 1992. Paribas said it had made particularly heavy write-downs on its industrial investments in France, Belgium, Switzerland and Italy. The board proposed holding the net dividend at FFr1.2 a share.

The chairman, repeating ear-

Foreign side boosts Deutsche Bank

By Christopher Parkes in Frankfurt

Deutsche Bank's expanding foreign business and sharp growth in returns from its own account were the main contributors to its 23 per cent increase in net earnings last year, according to Mr Hilmar Kopper, chairman.

Forecasting a similar result of DM2.2bn (\$1.3bn) after tax for the current financial year, he said foreign profits rose 63 per cent in 1993. Deutsche Bank AG, the parent company, had "quite a bad year" in its domestic operations, where net earnings were virtually unchanged at DM1.4bn.

Operating profits for the first two months, excluding risk provisions, were about level with the same period last year, Mr Kopper said at a press conference.

The group made good progress in its efforts to offset risk through regional and sectoral diversification, he said in a review of last year.

The chairman, repeating ear-

lier warnings that the banking system was typically worst affected at the end of a recession and well into the upturn, said provisions against bad debts had increased 72 per cent to DM3.3bn. Almost the entire amount had been set aside against risks in Germany.

However, sprightly economic recovery abroad and growing business in currencies and securities compensated for some of the domestic difficulties. The Morgan Grenfell group generated DM429m in earnings, and the Banca d'America e d'Italia made DM314m.

Mr Kopper said: As reported earlier, DB Luxembourg generated DM633m pre-tax partly from a heavy flow of funds out of Germany prompted by the introduction of a withholding tax last year.

Profits from own account trading rose 76 per cent to DM2bn, including a DM400m contribution from derivatives, which Mr Kopper stoutly defended against recent international criticism.

The debate about derivatives



Hilmar Kopper: Progress in efforts to offset risk'

narrowed further from 2.30 per cent to 2.21 per cent, and from 2.37 per cent to 2.49 per cent at the parent company.

This proved that charges that the bank was not passing on rate reductions were unfounded, Mr Kopper said. He also pointed out that the group had invested DM4bn in eastern Germany, and had yet to make any profit there, but it was not complaining.

By rule-of-thumb reckoning, earnings from the former GDR might start flowing in two or three years, he added.

Summarising last year's results, Mr Kopper said operating profits rose 16 per cent to DM5.3bn after risk provisions, while operating expenses increased 12.6 per cent to DM11.7bn. Excluding first-time consolidations, the rise was 6.5 per cent, he said.

Deutsche announced earlier this week a DM1.50 dividend increase to DM16.50 per share. Including tax credits the payout will give domestic shareholders DM23.57, compared with DM23.44 last time.

Mitsubishi Bank bails out units

By Emilio Terazono in Tokyo

Mitsubishi Bank, a leading Japanese commercial bank, announced a Y91bn (\$550m) rescue package to help its troubled finance subsidiaries.

The bank will give up some of its loan claims and forgo interest on Y330bn in loans made to Daimond Teito Shokai and Diamond Factor. The subsidiaries face mounting debts due to the prolonged recession and further falls in land prices.

However, Mitsubishi said the measures would not affect its profits for the year ended in March as the bailout would be financed through equity sales.

Meanwhile, Metallgesellschaft said this week that the pressing need to cut costs meant it was withdrawing its 49 per cent stake in South East Asia Metals Company, a joint venture with the Thai group Padaeng Industry to build a smelting works.

Judge extends Trizec protection

By Bernard Simon in Toronto

Trizec, North America's biggest publicly-traded property developer, has gained another 24 days of court protection while it tries to convince creditors not to push it into bankruptcy.

An Alberta judge has given the Calgary-based company until April 25 to work out an agreement with the creditors, notably a group holding C\$1.2bn (US\$870m) of senior debentures. The two sides

agreed that if they cannot bridge their differences by then, the number of days required for notice under bankruptcy laws will be reduced from 10 business days to one.

The debenture holders, many of whom are European investors, have rejected plans presented by Trizec last August to restructure part of its C\$4.8bn debt. Repayment of the debentures fell due last autumn.

But Trizec announced an agreement earlier this week for a C\$600m equity injection by

Horsham, the Toronto investment company controlled by entrepreneur Mr Peter Munk. Horsham would end up with a stake of at least 43 per cent.

Trizec expects that the Horsham deal will enable it to offer the senior debenture holders a higher proportion of cash, in place of the securities included in its original proposal. Details of its revised offer have not yet been released. The debenture holders have so far dismissed the Horsham deal.

Bank Hapoalim net climbs sharply

By David Horowitz in Jerusalem

Bank Hapoalim, Israel's largest bank, has announced a 36.3 per cent increase in net profits to Shk374.5m (\$126.4m) for 1993. Its net return on equity rose to 8.8 per cent, from 7 per cent in 1992.

Net profits in the fourth quarter of 1993 reached

Shk162m, almost double their level in the corresponding period of 1992.

Mr Amiram Sivan, chief executive officer, attributed the improved performance to increased operating income from capital market activities, greater profitability at various bank subsidiaries and affiliates, and a reduction of 22.8 per cent in provision for doubtful

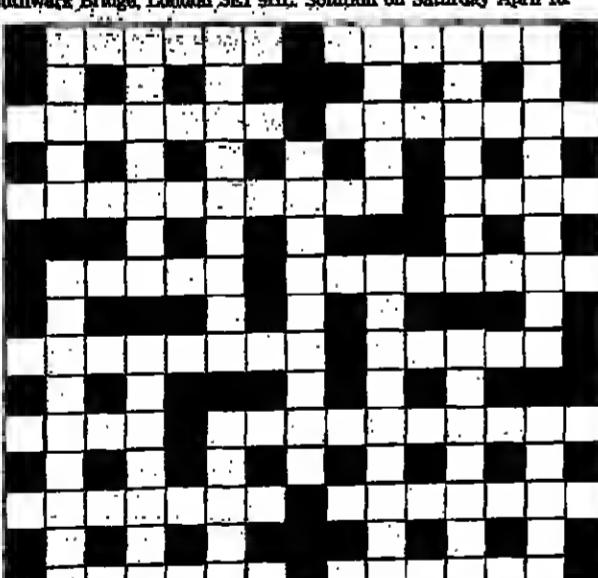
debts. Operating income, given in dollar terms by the bank, rose 16.4 per cent to \$58.6m due mainly to the expansion of diversified banking services in such areas as brokerage, underwriting and mutual and provident fund management.

Total consolidated assets increased by 2.3 per cent to \$35.9m.

CROSSWORD

No. 8,419 Set by FETTLER

A prize of a classic Pelikan Souverein fountain pen, inscribed with the winner's name for the first correct solution opened and five runner-up prizes of £5 Pelikan vouchers. Solutions by Wednesday April 26, marked Crossword 8,419 on the envelope, to the Financial Times, Number One Southwark Bridge, London SE1 9HL. Solution on Saturday April 16.



ALPHABETICAL JIGSAW: Solve the clues and insert the answers in the grid where they will fit.

A Shapeless mush - a poor do? (9)
B Such as oyster and vegetable starter's viable, when well cooled. (7)
C Being cold about craft work, left out reference to cigarette card collecting (10)
D One involved in calls for coarse paintings (5)
E Turned to hard exercise, held in the open air (8)
F This, threadlike, lies about our spinning (7)
G Garden cultivated, oriental, pineapple? (7)
H We Scots, engaged in English country dance! Nonsensical (5)
I Backing 101 to 1 and 500 to 1 is stupid? (7)
J Such cards - change hearts to spades, chaps? (7)
K Imperial crest? King has one on about the hem (7)
L I can girl performing touching service (6)

Solution 8,418

HARROW HAMPTON
A E I H O O
M A P I C I P I O N
P I V P H M E H I
D E C H P I T S H O H
E I H O C E T
H O D H T H U C H
E M E L L O
P A S I S E W Y
G A M M A
L E N T Y
I A E M H M B
C A V I C I E R
R O B E R T
A C E H I A O
E M I C I D E
B R I D G E

BENEDICTINE
I U O D G C
R U M P Y C O I N T H E A U
D E E N G O E
S T R A I G H T Y P U C H
T E O Y I S E
E M U L A T E C L A P
A D B R A I P R E M B E
T A O G H M A
E L B O U R E S T A T E C A R
M B G H U A M E
P R O C H O N G L A C K
A O G C B I I
R O D T E R H A M E D R O N

WWF
World Wide Fund for Nature

TANJONG PUBLIC LIMITED COMPANY

(Incorporated in England No. 210374)

NOTICE OF PROPOSED FINAL DIVIDEND AND CLOSURE OF BOOKS

NOTICE IS HEREBY GIVEN that a final dividend of 3.4 sen per share (after having taken account of Malaysian Income Tax at 32%) in respect of the financial year ended 31 January 1994 has been recommended by the Directors for approval by the members at the Sixty-Seventh Annual General Meeting of the Company. The dividend, if approved, will be paid on 12 August 1994 to shareholders on record of the Company at the close of business on 14 July 1994.

The Register of Members of the Company will be closed from 15 July 1994 to 21 July 1994 (both dates inclusive) for the purpose of determining shareholders' entitlement to the dividend.

Registrable transfers received by the Company's Branch Registrars in Malaysia, Simeg & Co. Sdn Bhd, at 1802, 18th Floor, Petronas International Building, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia, and the Company's Principal Registrar, in the United Kingdom, Independent Registrars Group Limited, at Broseley House, Newlands Drive, Witton, Essex CM8 2UL, up to the close of business at 3.00 p.m. on 14 July 1993 will be registered before entitlements to the dividend are determined.

BY ORDER OF THE BOARD

David Knock
Simeg Ramasamy
Joint Secretaries
31 March 1994

17th Floor Mezzanine Boustead
Jalan Raja Chulan 50200 Kuala Lumpur
Malaysia

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WEEK IN THE MARKETS

S African worries lift platinum

Platinum was the main beneficiary of a wave of buying that lifted precious metals prices in early trading on Thursday following the declaration of a state of emergency in South Africa.

The London afternoon price fixing for the white metal - 70 per cent of which is produced in South Africa - was at \$418 a troy ounce, up \$5 from Wednesday and only \$1 short of the 2½-year high reached last August.

The price was later trimmed by profit-taking but traders thought the bull run still had some fuel in the tank. "We are powering towards \$420, although we may not see it today," one dealer told the Reuters news agency.

He added that there was no sense in going short of platinum ahead of the elections being held in South Africa later this month.

The gold market also responded to deepening concern about the situation in South Africa, but with the same lack of conviction that characterised its attempt on Monday to break resistance above \$392 an ounce. Having faltered again on Thursday morning at \$390 the price was fixed in the afternoon at \$389.20 an ounce and closed at \$389.75, up 35 cents on the week.

Silver fared rather better. The 15-cent retracement that followed the abandonment on Tuesday of speculators' attempts to drive the price to \$6 an ounce was all but recouped on Thursday morning and at the London close it still stood at \$5.71½ an ounce, up 1 cent from last Friday but 3½ cents below the 4-year high that it had reached earlier last week.

At the London Metal Exchange speculators turned against the copper market in mid-week, eliminating most of the recent \$80-plus rally. The

metal's three-month position closed on Thursday at \$1,988.25 a tonne, \$3.25 off the day's low but still \$65.50 down on the week.

The fall, most of which was suffered on Wednesday, came as little surprise to big copper consumers and merchants, who had been waiting for a "technical correction", said Mr Ted Arnold, metals specialist at the Merrill Lynch financial services group.

They were hoping the market would cool down a bit during the summer, he explained, "and were anxiously waiting to buy any and all price dips down from 86 cents a pound [\\$1,895 a tonne] to 80 cents [\\$1,763]."

With demand for copper strong in the US and picking up in Europe and supply becoming "something of a problem", he doubted that the price would go much below the latter level in 1994 and thought it should be back at 95 cents by the end of the year.

Aluminium's supply/demand balance has also been improving and that helped the LME market to show more resilience to speculative sales this week than copper. The three months price closed on Thursday at \$1,314.50 a tonne, down \$18 on the week.

US sellers sparked a big shake-out in the cocoa market, although there were no significant fundamental developments to justify the fall. At the London Commodity Exchange the May futures position touched \$282 a tonne before ending at \$283, down \$40 on the week.

The Organisation of Petroleum Exporting Countries' decision last weekend to leave its output ceiling where it was appeared to be taken as the signal for traders to unload the cover they had taken against the outside possibility that the ministers would this time grasp the nettle of over-production.

In consequence the June delivery position at London's International Petroleum Exchange was quoted at \$13.38 a barrel in late trading on Thursday down, say 58 cents on the week.

Richard McNamee

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY (\$ per tonne)					
Cash					
Closes	1280-1	1281-5			
Previous	1287-8	1282-1			
High/Low	1317/1308				
AM Official	1292-5-3	1316-5-7			
Kerb close	1295-5				
Open int.	286,079				
Total daily turnover	51,674				
Close	1285-50	1288-80			
Previous	1285-50	1285-300			
High/Low	1289/1290				
AM Official	1280-1	1285-7			
Kerb close	1287-90				
Open int.	4,949				
Total daily turnover	450				
Close	1282-115	1285-115			
Previous	1282-115	1287-115			
High/Low	1284-115	1288-115			
AM Official	1282-115	1285-115			
Kerb close	1287-90				
Open int.	5,204				
Total daily turnover	5,204				
Close	1444-5-5	1457-5-5			
Previous	1445-5-5	1462-3			
High/Low	1446/1457				
AM Official	1444-5-5	1458-60			
Kerb close	1460-60				
Open int.	56,336				
Total daily turnover	5,204				
Close	1445-5-5	1458-60			
Previous	1445-5-5	1462-3			
High/Low	1446/1457				
AM Official	1445-5-5	1458-60			
Kerb close	1460-60				
Open int.	48,908				
Total daily turnover	5,204				
Close	1457-5-5	1464-6			
Previous	1457-5-5	1462-5			
High/Low	1458/1464				
AM Official	1457-5-5	1463-5			
Kerb close	1460-60				
Open int.	48,908				
Total daily turnover	5,204				
Close	1444-5-5	1458-60			
Previous	1445-5-5	1462-3			
High/Low	1446/1457				
AM Official	1445-5-5	1458-60			
Kerb close	1460-60				
Open int.	48,908				
Total daily turnover	5,204				
Close	1444-5-5	1458-60			
Previous	1445-5-5	1462-3			
High/Low	1446/1457				
AM Official	1445-5-5	1458-60			
Kerb close	1460-60				
Open int.	48,908				
Total daily turnover	5,204				
Close	1444-5-5	1458-60			
Previous	1445-5-5	1462-3			
High/Low	1446/1457				
AM Official	1445-5-5	1458-60			
Kerb close	1460-60				
Open int.	48,908				
Total daily turnover	5,204				
Close	1444-5-5	1458-60			
Previous	1445-5-5	1462-3			
High/Low	1446/1457				
AM Official	1445-5-5	1458-60			
Kerb close	1460-60				
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AM Official	1445-5-5	1458-60			
Kerb close	1460-60				
Open int					

MARKETS REPORT

Dollar rises

The dollar rose sharply in New York yesterday after the release of strong jobs data renewed speculation of a near term tightening in US monetary policy, writes Philip Gammie.

The March non-farm payroll rose by 456,000, roughly double market expectations, and the largest such rise since a gain of 566,000 jobs in October 1987.

The dollar rose more than two pence on the news from DM1.6770 to DM1.6950, before slipping back below DM1.6850 in late morning trading. It was also higher against the yen, trading above Y103.60. Volatility was very thin on account of the Easter break.

Activity in foreign exchanges was otherwise very subdued with most markets closed for the long weekend.

Although the initial view of the US jobs figures was that they supported an early tightening, a closer look suggested a more complicated picture. Mr

Lacy Hunt, chief US economist at Midland Global Markets in New York, said the labour market was in fact weaker than the headline figure suggested.

Citing the low rate of growth in hourly earnings, and the deflationary effect of job growth in low-paying service jobs, he suggested an early or dramatic move from the Fed was unnecessary.

The D-Mark finished gen-

H **Pound in New York**

Apr 1	Open	Change	Day's mid-point spread	Day's low	Day's high	One month	Three months	One year	Rate	Bank of
	1.4780	-0.0003	1.4778	1.4765	1.4793	1.4765	1.4765	1.4765	1.4765	UK
2 Apr	1.4721	-0.0003	1.4720	1.4717	1.4723	1.4717	1.4717	1.4717	1.4717	UK
3 Apr	1.4742	-0.0003	1.4741	1.4738	1.4744	1.4738	1.4738	1.4738	1.4738	UK
4 Apr	1.4693	-0.0003	1.4692	1.4689	1.4695	1.4689	1.4689	1.4689	1.4689	UK

ten firmer in London at 1.6933 against the D-Mark, the lire rose further yesterday to 1.9875/76 after reports of a successful meeting between Mr Silvio Berlusconi, the victorious Freedom Alliance leader, and his alliance partner the Northern League.

Elsewhere on Thursday, the Bank of France cut its intervention rate by ten basis points to 5.90 per cent - the second such cut in the week.

The franc ended slightly firmer, at FF13.414 to the

D-Mark from FF13.419 on

CURRENCIES AND MONEY**Dollar****DM per \$****Yen per \$****Sterling****DM per £****\$ per £****French franc****FF per DM****DM per FF****Yen per FF****French franc per FF****DM per FF**

LONDON STOCK EXCHANGE: Dealings

Details of business done shown below have been taken with consent from last Thursday's Stock Exchange Official List and should not be reproduced without permission.

Details relate to those securities not included in the FT Share Information Services.

Unless otherwise indicated prices are in pence. The prices are those at which the business was done in the 24 hours up to 5 pm on Wednesday and settled through the Stock Exchange Telfermax system, they are not in order of execution but in ascending order which denotes the day's highest and lowest dealings.

For those securities in which no business was recorded in Wednesday's Official List the latest recorded business in the three previous days is given with the relevant date.

Rule 535(2) stocks are not regulated by the International Stock Exchange of the United Kingdom and the Republic of Ireland Ltd.

† Bargain at special prices. ♦ Bargain down the previous day.

British Funds, etc.

Treasury 1/3rd 58c 2000/03 - £125.25
Treasury 1/2nd 54c 2003 - £115.25

Corporation and County Stocks

Hul Corp 3/4th 86c 1st Iss - £26.5
Hul Corp 1/2nd 86c 1994 - £11.4c Red Shk
2007 - £12.5c Red Shk
Newcastle Upon-Tyne City of 11/4% Red Shk
Shk 2017 - £15.5c Red Shk

UK Public Bonds

Clydeport Ld 4/4th Inv Shk - £24.25m/94
Port of London Authority 3% Part of London A Shk 2005 - £20 (25m/94)

Foreign Stocks, Bonds, etc. (coupons payable in London)

AMP(UK) PLC 13/16 Bds 2015 (Br)
Abey International 8% Securitised Cpl 10/16
Subord Gld Bds 2002 (Br 2 Ver) - £105.5
Abey International Treasury Stock PLC 8% Ord
Bds 2002 (Br 2 Ver) - £25.5c

Acer Incorporated 10/16 Bds 2003 (Br 2 Ver) - £12.75c

Afco Holdings Ltd 10/16 Cvr Cap
Bds 2002 (Br 2 Ver) - £10.5c

Afco Holdings Ltd 10/16 Cvr Cap
Bds 2002 (Br 2 Ver) - £11.5c

ASDA Group PLC 10/16 Bds

Avon International Treasury Stock PLC 8% Ord
Bds 2002 (Br 2 Ver) - £10.5c

Bell Atlantic 10/16 Cvr Cap
Bds 2002 (Br 2 Ver) - £11.5c

Bell Atlantic 10/16 Cvr Cap
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FT MANAGED FUNDS SERVICE

• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 879 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts
Compiled with the assistance of Lautro SS

INIAN CHARGE: Charge made on account of

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including compensation paid

Administrative costs, including commission paid to interpreters. This charge is included in the price of visits.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by

CANCELLATION PRICE: The unlisted

The maximum spread between the offer and bid prices is determined by a formula laid down in the agreement. In

formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is

However, typically, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the manager of the firm, usually in

price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The Name shown alongside the food manager's name is the time of the unit that's

Members are listed in the lists of the unit trust's shareholders prior to which another name is indicated by the symbol alongside the individual unit trust name. The members are as follows: 200 - 20001 to

name. The symbols are as follows: (V) - 0031 to 1100 hours; (A) - 1101 to 1400 hours; (P) - 1401 to 1700 hours; (G) - 1701 to midnight.

Daily trading prices are set on the basis of the valuation point; a short period of time may allow them to become volatile.

ships before prices become available.

1990-1991

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INSURANCES

FT MANAGED FUNDS SERVICE

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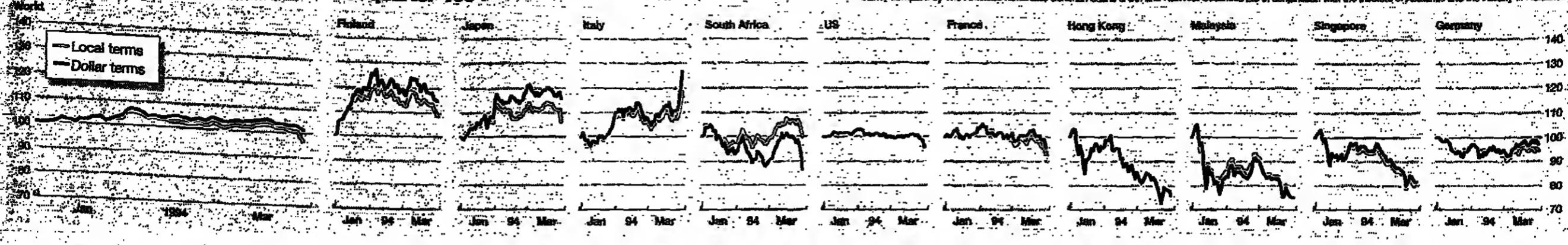
FT MANAGED FUNDS SERVICE

• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4878 for more details.

MANAGED FUND NOTES
 Prices for no load plans unless otherwise indicated and these designations 5 with no profit rates in U.S. dollars. Yield % allow for all buying expenses. Prices of certain older insurance plans subject to capital gains tax as notes. If distribution free of UK taxes, a *Particulat premium insurance plan*, a single premium insurance. In Designated as a UGTS (Underwriting for Collective Investment in Transferable Securities), or otherwise price includes all relevant except agent's commission. * Premium rates, price, 25% growth premium. ** Suspended. + Variable rate, subject to 1% Escalation. - Only minimums, no absolute limits. # Yield column shows minimum rates of NAV increases, not as disclosed.
 (*) Funds not SII recognized. The regulatory authorities for these funds are: Germany: Financial Services Commission; Ireland: Central Bank of Ireland; Isle of Man: Financial Supervision Commission; Jersey: Financial Services Department; Luxembourg: Institut Monétaire Luxembourgeois.

WORLD STOCK MARKETS

FT-Actuaries World Indices in the first quarter 1994



AMERICA

Dow fights back after heavy morning deficit

Wall Street

US blue-chip stocks ended with modest gains on Thursday after another buffering from an unstable bond market, writes Frank McCourt in New York.

The Dow Jones Industrial Average closed 9.22 better at 1,635.97, after fighting back from a 67-point deficit at mid-morning. The final push into positive territory came only about an hour before the close, as a burst of program-guided buying, coinciding with the end of trading in the first quarter, lifted the bellwether index by about 20 points.

The more broadly based Standard & Poor's 500 also reversed course during the session, climbing back from a six point decline to end 0.21 better at 445.76, while declining issues outnumbered advances by 1,532 to 738.

For a second consecutive day, activity was hectic, as portfolio managers sought to square positions before their books closed for the quarter. NYSE volume reached 386m shares, topping the previous day's level of 390m. The American SE composite ended 2.43 lower at 443.11, and the Nasdaq composite down 1.45 at 743.46. It was an appropriate end to

a week of turmoil. After a net loss of 147 points since Monday's opening, confidence was in short supply when investors began the last session before the Easter three-day holiday.

Share prices were already slipping by mid-morning, when the Chicago Association of Purchasing Management released its March index of business activity. The data were received badly. Not only did the index indicate a overall surge of activity in the region, but more importantly for the inflation-sensitive bond market, the report's price-paid component showed a big rise.

In response Treasury prices, especially on the long end of the yield curve, dropped precipitously, triggering frenzied selling in stocks. Within an hour, however, share prices stabilised amid a cross-current of program-driven trades.

As the day progressed, buyers finally trickled back into the Treasury market, tempted by low prices. In equities, bargain-hunters snapped up some of Dow components battered earlier in the week. Caterpillar recovered 3.8% to \$112 and Allied Signal 3.2% to \$36. JP Morgan gained 3.2% to \$62. McDonald's \$1 to \$56 and IBM \$1 to \$54.

ASIA PACIFIC

Nikkei in modest recovery after Thursday's setback

Tokyo

A sharp rise in the yen hurt share prices on Thursday, but the Nikkei regained some ground yesterday on buying by dealers and individuals, writes Eriko Terazono in Tokyo.

The Nikkei 225 index, which plunged 447.98, or 2.3 per cent, to 19,111.32 on Thursday, firmed yesterday by 16.34 to 19,127.16, after a low of 19,161.63 and a high of 19,176.08.

The 225 was down 2.8 per cent on the week. Wednesday's fall on Wall Street and fears over mounting US-Japan tensions over trade, which depressed investors' confidence, subsided as the New York stock market regained some ground overnight.

The Tokyo index of all first section stocks, which fell 25.01 to 1,563.21 Thursday, ended up 2.97 to 1,571.18, while the Nikkei 300 rose 1.38 to 287.11 following a 5.26 point decline the previous day. Volume was 350m shares, against 305m. Gainers led losers by 623 to 361, with 160 unchanged.

Analysts expect the current volatility in share prices to continue, due to the uncertainty of yen movements against the dollar, and turned on the political front.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd, Goldman, Sachs & Co. and NatWest Securities Ltd, in conjunction with the Institute of Actuaries and the Faculty of Actuaries.

NATIONAL AND REGIONAL MARKETS

Figures in parentheses show number of firms in stock.

US Dollar Index: 100 = 100.00, 101 = 101.00, etc.

Pound Sterling Index: 100 = 100.00, 101 = 101.00, etc.

Yen: 100 = 100.00, 101 = 101.00, etc.

Local Div. Yield: %

Gross Div. Yield: %

Local % chg on day: %

DM Starting Year Index: 100 = 100.00, 101 = 101.00, etc.

US Dollar Starting Year Index: 100 = 100.00, 101 = 101.00, etc.

Currency Index: 100 = 100.00, 101 = 101.00, etc.

Yield: %

Low (High) (Last):

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Yield: %

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LONDON SHARE SERVICE

